Financial statements

Our overall strategy

Simplify

Strengthen

Succeed

We present our financial statements in line with our overall strategy and commitment to provide clarity and transparency of our financial performance. The presentation is geared towards making our financial statements: clear; understandable; and integrated.

Clear

We recognise that our stakeholders have different needs. We have therefore grouped the notes to the consolidated accounts into the following six sections designed to meet these different objectives: Basis of preparation, Results for the year, Operating assets and liabilities, Capital structure and financing costs, Employee benefits and Other supporting notes. We believe that this presentation style allows for greater clarity of our financial performance.

Understandable

We supply analysis at the start of each section in the consolidated accounts. This provides a commentary on key changes in our financial performance compared with key metrics and/or prior-year results. We believe that this analysis will make it easier for users to understand the key drivers of the financial performance of the Group, and should be read in conjunction with the Chief Financial Officer's review in the strategic report.

Integrated

Each note to the accounts commences with a summary of the accounting policies and key judgements related to that note. These policies and judgements are clearly identified using appropriate signage allowing readers to refer to them with ease. We believe that this integration will help readers understand the financial performance in the context of the accounting policies and judgements made.

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Independent auditor's report

to the members of Capita plc

1 Our opinion is unmodified

We have audited the financial statements of Capita plc (the Company") for the year ended 31 December 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies in sections 1 to 6 to the Group financial statements and section 7 to the Parent Company Financial statements.

In our opinion

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- The Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the Directors on 18 August 2010. The period of total uninterrupted engagement is for the 11 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	**£7m (2019: £8m)** **4.4% (2019: 3.8%) of normalised Group profit before tax**
Coverage	86% (2019: 84%) of total Group revenue 74% (2019: 83%) of total profits and losses before tax 88% (2019: 86%) of total Group assets

Risks of material misstatement	vs 2019	
Recurring risks for the Group	Going concern	▲
	Revenue and profit recognition	◄►
	Impairment of goodwill	▲
	Items excluded from adjusted profit	◄►
	Capitalisation and recoverability of contract fulfilment assets	◄►
	Provisions and contingent liabilities	◄►
	Pensions obligations	◄►
Recurring risks for the Parent Company	Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries	▲

In the prior year we reported a material risk in respect of the capitalisation and recoverability of intangible assets. This was primarily in relation to the intangible asset that was developed to support the finance transformation programme, and the associated estimates regarding the costs to be capitalised which were subjective in nature. As reported in 2019, the go-live programme for the new finance system was paused. The level of our audit focus has reduced and accordingly the risk has been removed from our audit report for 2020.

2 Material uncertainty related to going concern

The risk	
Going concern Refer to section 1 and the viability statement on page 58 and the Audit and Risk Committee report (pages 80-88). We draw attention to note 1 to the financial statements which indicates that the Board requires the completion of a planned refinancing programme or planned business disposals to support the going concern assumption. Both require agreements and consents from third parties which are not within the direct control of the Company and accordingly these events and conditions constitute material uncertainties that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern and, therefore, that the Group and parent Company may be unable to realise their assets and discharge their liabilities in the normal course of business. We draw attention to the viability statement on page 58, which highlights the Board's plans to refinance and complete the business disposals programme, to support the medium-term resilience. As noted above these transactions are outside the direct control of the Company and represent material uncertainties that may cast significant doubt over the future viability of the Group and Parent Company should these events not complete as planned. Our opinion is not modified in this respect of these matters.	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Parent Company's business model and how those risks might affect the Group's and Parent Company's financial resources or ability to continue operations over a period to 31 August 2022 from the date of approval of these financial statements (the 'going concern period'). There is little judgement involved in the Directors' conclusion that the mitigations required to address the risks and circumstances, described in note 1 to the financial statements, represent material uncertainties over the ability of the Group and Parent Company to continue as a going concern. This is because the mitigations are not within the direct control of the Group. Clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there are related material uncertainties, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.

Our response

Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosure, to confirm whether they sufficiently explain the judgements made by the Directors in assessing whether the basis of preparation is appropriate. In addition, we assessed the overall balance presented in the basis of preparation and viability statements, and the clarity provided by the Board in relation to the mitigations required to support the going concern assumption and viability of the Group and Parent Company.

We responded to the going concern and viability risks by critically evaluating the Board's assessment of both the base case and severe but plausible downside scenario. The focus of our audit covered the following key areas:

Our sector experience: We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions including the potential risk of management bias. In addition to execution risk associated with the transformation plan, we critically assessed the potential impact of COVID-19 including the most recent lockdown measures in 2021, along with the risks and uncertainties associated with the Group's customers, suppliers and workforce. We formed our views based on our understanding of the business and the end markets the Group serves and how these have been impacted by the global pandemic.

We considered the risk factors as set out by the Board in the Principal Risks section of the annual report and accounts, and where relevant ensured that these featured in the projections prepared to support the base case and the risks applied.

Test of detail: We used our modelling specialists to test the integrity of the financial model used by the Board to assess the base case projections and the various scenarios, including the severe but plausible downside forecasts.

We critically assessed the cash flow forecasts by considering the appropriateness of key assumptions used in preparing those projections, with a specific focus on the revenue growth assumptions and cost reduction plans. We evaluated these via enquiries with each of the divisional Executive Officers and Finance Directors, the Chief Executive Officer and interim Chief Financial Officer, and inspected the Board plans and associated papers.

Historical forecasting: We assessed the ability of the Group to accurately forecast by comparing historical results to forecasts for key metrics. We assessed the most recent years' performance against budget, including sales growth and cost reductions, recognising the impacts the COVID-19 introduced, and challenged the assumptions over the going concern period based on historical performances.

Funding assessment: We reviewed the lender agreements, including the Revolving Credit facility (RCF), to understand the terms including covenant requirements and any restrictions in the use of funds. We re-performed calculations, for 30 June 2021 and 2022 and 31 December 2021, prepared to assess compliance with the key financial covenant and tested for mathematical accuracy.

We considered the adjustments made in the adjusted EBITDA for the covenant calculations, considering the appropriateness compared to the loan agreements and historical accepted practice with the current lenders. In addition, we inspected the correspondence between the Company and the private placement lenders that set out the proposed items to be excluded in the adjusted EBITDA definition and compared these against the items included in the covenant calculations.

Sensitivity analysis: We assessed the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business, the associated risk exposure and we considered the most recent trading results to form a holistic view of the Group. We assessed those risks and challenged whether the risks applied reflected progress to date in delivering the transformation programme and the ongoing effects from COVID-19 based on the impacts experienced by the Group during 2020. We assessed all risk assumptions to ensure that they reflected a more likely than not chance of occurring under the downside scenarios. We also assessed the mitigating actions, to identify whether these were reasonable and within the direct control of the Group.

We considered management's assessment of the potential impacts of COVID-19 and Brexit and UK Government policy more generally on the Group, and the Government Services division, along with plans to mitigate those risks.

Our findings: We found the going concern disclosure including the related material uncertainties to be proportionate (2019: disclosure finding with no material uncertainty: proportionate).

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters (unchanged from 2019 with the exception of the risk associated with the capitalisation and recoverability of intangible assets which has been removed from our audit report as described in section 1), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	
Revenue and profit recognition The Group has reported revenues from continued operations of £3,324.8 million (2019: £3,678.6 million) and a loss before tax of £49.4 million (2019: loss £62.6 million) Refer to sections 2.1 and 2.2 and to the Audit and Risk Committee report (pages 80 - 88).	**Accounting treatment** Professional standards require us to make a rebuttable presumption that the fraud risk associated with revenue recognition is a significant risk. The incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue and profit recognition. **Subjective estimate** There is a risk that revenue may be recognised even though it is not probable (i.e., not more likely than not) that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with customers. For long-term contracts, the contractual arrangements can be complex regarding variable consideration and service performance measures. This can involve significant judgments that may impact the recognition of revenue and contract profits including, among others, those over: — The interpretation of contract terms concerning future obligations; — The allocation of revenue to performance obligations; — The assessment of whether the contract performance obligations satisfy the requirements to apply the series guidance; — The consideration of onerous contract conditions and associated loss provisions; and — Where changes in the scope of work are agreed, the assessment of whether the new services are distinct or not. The execution risk associated with the successful transformation on an outsourcing contract requires judgment to be applied concerning costs to complete and the overall estimation of profit over the lifetime of the contract. There is a risk that potential difficulties are not identified fully resulting in excessive profits being recognised or the lack of consideration of contract loss provisions. This risk has been heightened due to the impact of COVID-19 on the delivery of performance obligations, and the economic uncertainties the pandemic has introduced that may impact assumptions concerning future performance metrics. In situations where customers terminate, or partially terminate a contract, the cessation may trigger the recognition of deferred income associated with outstanding performance obligations which will no longer be recognised in future periods. Judgment is required to determine the effective date of the termination, and particularly where services are being handed back or across to another provider. The effect of these matters is that, as part of our risk assessment, we determined that revenue and profit recognised from long-term contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the revenue and profit recognition accounting policies and the key judgments applied.

Our response

Tests of detail: We obtained and inspected a sample of the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions and to identify conditions under which variable revenue can arise. For the major contracts within our scope, where relevant, we also assessed the accounting papers prepared by the Company that set out the key judgments to apply.

Where contract negotiations are ongoing in relation to variable consideration, we made enquiries on the current status with those involved in the discussions and by reference to the associated signed contract or any variation amendments. Where significant variable consideration had been recognised, we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue recognition assumptions. Where relevant we inspected correspondence with customers or other supporting documentation in relation to the variations or scope change.

We considered the assumptions within the business plans and lifetime assessments, checking that onerous conditions had been recognised appropriately, particularly on contracts that have had a poor performance in the current year and those contracts that are in a pre-inflection phase of transformation. We assessed the impact of COVID-19 on the key assumptions, together with any contract modifications agreed with the customer in response to the pandemic.

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In determining whether onerous contract provisions should be recorded, we assessed contract profitability forecasts by analysing historic performance relative to contractual commitments over its full term. This included assessing critically the assumptions over future costs including projected savings and the actions required to achieve these by comparison to historical cost savings achieved on similar projects. Our assessment considered the levels of uncertainty contained in the forecasts, the extent to which Company actions alone could mitigate risks and any dependencies on the customer or other third parties. This assessment covered a sample of contracts including those identified by the Board as being high risk and comprising the major contracts in a pre-inflection phase.

In situations where there has been a termination or partial termination, we assessed the contract terms including any correspondence from the customer, to challenge the effective date of the termination. We also challenged the judgments applied as to whether, in the case of a partial termination, any deferred income should be recognised immediately or spread forward by assessing the inter dependencies of the performance obligations, and the initial contractual terms.

We challenged whether the key contract judgments made by the Board are appropriate based on the underlying contractual terms an evidence obtained.

Assessing transparency: We considered the disclosures in the financial statements to check that these were comprehensive and provided proportionate detail of the revenue and profit recognition policies and of the key judgments applied. This included an assessment of whether sections 2.1 and 2.2 clearly set out the impacts arising from the accounting policies applied in relation to the long-term contracts provided by the Group.

Our findings: In determining the treatment of revenue and profit recognition, the Group has applied accounting policies based on the requirements of IFRS15. In applying these policies there is room for judgement and we found that within that the Group's judgement was balanced (2019 finding: balanced).

We found the disclosures associated with the IFRS15 policies to be ample (2019 finding: ample).

The risk	
Impairment of Goodwill and acquired intangibles The Group records goodwill of £1,120.5 million as at 31 December 2020 (2019: £1,177.8 million) and intangible assets acquired in business combination of £38.9 million as at 31 December 2020 (2019: £74.1 million) – see sections 3.4 and 3.3. Refer to the Audit and Risk Committee report on pages 80 - 88	**Forecast based valuation** As part of our risk assessment we considered the carrying value of goodwill and intangibles assets acquired in business combination and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows. We determined that the recoverable amount of goodwill and intangibles assets acquired in business combination has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (section 3.4) disclose the sensitivity estimated by the Board. COVID-19 has introduced unprecedented economic uncertainties and this has led to increased judgement in forecasting future financial performance. The high level of uncertainty as to how the pandemic might evolve over the remainder of 2021 and potentially into 2022 (including whether or not there will be future waves of infection and future lockdowns) and the impact this may have on the Group's activities and performance, renders precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Group's financial forecasts. There is a risk that the Board have not adequately assessed the factors that could impact the future forecasts and performance of the business, including the execution risk associated with the transformation plan and the economic uncertainties presented by COVID-19. This could impact the assessment over the carrying value of goodwill, and the quantum of any impairment charges that may need to be recorded. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the key assumptions that drive the valuations, and the key sensitivities that the Board has considered. This is particularly important given the ongoing transformation programme, the impacts that COVID-19 has introduced, and the relevance of the assumed growth assumptions to the sensitivities that are relevant when considering the carrying value of goodwill.

Our response

Comparing valuations: We compared the total amount of discounted cash flows to support the fair value less cost to sell (FVLCS) to the Group's market capitalisation and assessed the rationale for the differences. We also compared the implied share price derived from the FVLCS valuation at the year end to the Company's share price throughout 2020 and assessed the reasonableness of the factors identified by the Board to explain the differences. Our assessment considered the impact of COVID-19 on the share prices of many listed entities during 2020, and the sectors and end markets that the Group is involved with.

Control operation: We tested the principles and integrity of the Group's discounted cash flow model.

Tests of detail: We compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit and assessed if these cash flows were reasonable.

We assessed the assumptions applied to determine the FVLCS by comparison with external market data regarding multiples and selling costs.

Historical comparison: We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets, recognising the impacts that the COVID-19 introduced. We also assessed the forecast revenue growth with reference to the most recent results for 2019 and 2020.

Benchmarking assumptions: We used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates.

Sensitivity analysis: We performed sensitivity and break-even analyses for the key inputs and assumptions and identified those cash-generating units we considered most sensitive to impairment.

Assessing transparency: We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of goodwill, checking that the sensitivity disclosures provided enough detail and proportionate information to inform a reader of the accounts.

Our findings: We found that the Group's cash flow forecasts and discount rates, when considered together, were mildly optimistic (2019 finding: mildly optimistic), reflecting the dependency on the success of the transformation program.

We found the Group's disclosures to be proportionate (2019 finding: proportionate) in their description of the assumptions and estimates made by the Group and the sensitivity of the valuation of goodwill to changes in those assumptions and estimates.

The risk	
Items excluded from adjusted profit The Group has reported a loss before tax of £49.4 million for the year ended 31 December 2020 (2019: loss £62.6 million) and corresponding adjusted profit before tax of £65.2 million (2019: £197.7 million) Section 2.4 details items excluded from adjusted profit. Refer to the Audit and Risk Committee report on pages 80 - 88.	**Presentation appropriateness** The Group presents separately adjusted measures including operating profit and profit before tax as a note to the consolidated income statement and in section 2.4. In addition, adjusted free cash flow measures are presented in section 2.10. The Company's financial highlights and commentary refers to 'adjusted' measures as well as those derived on an adopted IFRS basis. The reasoning behind this presentation is set out in notes to the financial statements. Items excluded from adjusted profit are not defined by IFRSs and therefore a policy decision is required by the Directors to identify such items and to maintain the comparability of results with previous years in accordance with the Group's accounting policy, and there is a risk of management bias. Failure to disclose clearly the nature and impact of items excluded from adjusted profit may distort the reader's view of the financial result in the year. COVID-19 has introduced unparalleled economic uncertainties with corresponding impacts on the Group's performance in 2020. The Board has identified the key effects from COVID-19, and in response has accelerated certain aspects of the planned restructuring activities including the costs associated with the rationalisation of the Group's property portfolio, including lease exit costs. There is a risk that items excluded from the reported GAAP measures are inappropriate and not in accordance with the accounting policy approved by the Board, including items that have arisen as a result of the pandemic. The key covenants that are relevant for the Company's compliance with the terms of the debt and loans are based on EBITDA that is adjusted for items excluded from reported profits. This introduces a risk of management override and bias to ensure compliance is achieved. **Disclosure quality** The disclosures need to include relevant and appropriate explanation of the items adjusted to ensure these are transparent and understandable and can be reconciled easily back to equivalent reported GAAP measures. There is a risk that the information provided is unclear and does not provide enough detail on the accounting policy approved by the Board, and in the case of restructuring does not set out the boundaries applied to determine which costs should be excluded from the reported measures.

Our response

Assessing principles: We communicated our consideration on the classification of items excluded from adjusted profit to the Audit and Risk Committee to inform the debate on the Board's assessment of the policy decision to present adjusted measures in addition to the reported metrics.

We examined the presentation of adjusted measures in the front half of the Annual Report and Accounts ('ARA') and considered this against applicable guidelines including the FRC publications on the presentation of alternative performance measures. This included the publications issued by the FRC during 2020 in response to COVID-19 with guidance provided on how listed entities should use the narrative to explain the effects of the pandemic on the Group's activities and performance in 2020.

Assessing balance: We considered whether there are any items included in the adjusted measures that it would be more appropriate to exclude from these measures and vice versa.

We tested on a sample basis items recorded as adjustments to source documentation to assess the appropriateness of classification.

As part of this consideration, we assessed the consistency of application of the Group's accounting policy for the classification of items excluded from adjusted profit year-on-year.

We reviewed the terms of the debt and loan agreements to understand the items that can be adjusted for the purpose of preparing the covenant calculations.

We evaluated the items adjusted with a consideration to the factors above to assess management override and bias.

Assessing transparency: We assessed whether the basis of the adjusted financial information is clearly and accurately described and consistently applied and that all alternative performance measures, together with reconciliations to the adopted IFRS position, are shown with sufficient prominence in the ARA. We assessed the narrative and commentary within the ARA with reference to the FRC guidance on how entities should explain the effects of COVID-19, and the entity's response to this guidance.

Our findings: The Board identified several items that individually had affected profit for the year (or prior year) and that required appropriate disclosure in the ARA to enable stakeholders to assess the Group's performance. This included items presented within the reported measures, and those excluded to arrive at the adjusted measures.

We found that proportionate disclosure of these items had been provided in the ARA taken as a whole (2019 finding: proportionate).

The risk	
Capitalisation and recoverability of contract fulfilment assets ('CFA') The group reported CFAs that as at 31 December 2020 totalled £294.8 million (2019: £275.8 million) Refer to sections 2.1, 2.3 and 3.1.3, and to the Audit and Risk Committee report on pages 80 - 88.	**Accounting application** IFRS15 requires that certain costs incurred on a contract, or an anticipated contract, that generate or enhance the resources of an entity to deliver the performance obligations, and meet the relevant criteria set out in the standard, should be capitalised and amortised over the expected contract life. **Subjective estimate** Section 2.1 sets out the outsourcing model operated by the Group and explains how typically the early stages of a contract ('pre-inflection') will reflect a period when the contract fulfilment assets are created as the contract delivery is established. Judgment is required in applying the Group's accounting policy to assess whether the costs incurred will enhance the future economic benefits from the contract. Where contracts are at the pre-inflection stage, there is greater risk of recoverability as during this phase the CFA is being developed. This compares to contracts post inflection and in a 'business as usual' stage where the risk is reduced as the CFA has been proven and is being used to deliver the performance obligations, with amortisation over the expected contract life. Where a contract is not performing as expected, the costs capitalised may not be recoverable and an impairment of the CFA may need to be recorded. CFAs are required to be amortised over the expected life of the contract and this requires an estimate of any likely contract extensions. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of contract assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** There is a risk that the disclosures presented are not adequate to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as a contract asset.

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Our response

Tests of detail: We tested on a sample basis the costs capitalised as CFAs by reference to the criteria set out in the Group's accounting policy. For the costs sampled we obtained third party support, or for internally generated time we obtained the relevant costing rates and records, to support the basis of capitalisation.

We assessed on a sample basis the useful economic lives applied to the CFAs and evaluated the expected contract life by reference to the contract terms or where appropriate any agreed extensions to the original contract.

Sensitivity analysis: Where a contract has performed below budget and expectations, we assessed whether there was uncertainty regarding the recoverability of the CFA through future contract profitability.

Assessing transparency: We considered the disclosures in the financial statements to assess whether these provided sufficient detail of the criteria used to evaluate whether expense items should be recorded as a CFA.

Our findings: We found the assumptions and estimates used to assess the CFAs to be recognised, and to determine the estimated useful lives, to be balanced (2019 finding: balanced).

We found that the Group's disclosures in section 3.1.3 to be proportionate (2019 finding: proportionate). Section 2.1 highlights the CFAs that are at higher risk due to the pre-inflection stage of the contract.

The risk	
Provisions and Contingent Liabilities See section 3.6 for details of the provisions totalling £41.7 million as at 31 December 2020 (2019: £41.2 million) and section 6.2 for a discussion on the contingent liabilities identified. Also refer to the Audit and Risk Committee report on pages 80 - 88.	**Subjective estimates** Significant judgment is required to assess whether actual or potential claims, litigation or fines arising from regulatory oversight, or from ongoing disputes, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities. In the normal course of business, potential exposures may arise from the group's activities in prior years, for example in relation to design authority roles related to property constructions and acting as administrator for pension schemes and arrangements. **Dispute outcome** The amounts involved are potentially significant, and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective due to the nature of the claims, litigation, fines and disputes. There is a risk that the estimate is incorrect, and any provision is materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that the litigation liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 6.2) disclose the contingent liabilities that the Board has assessed. **Disclosure quality** Where the impact of any present obligations is not probable or not reliably measurable, and thus no provision is recorded, failure to adequately disclose the nature of these circumstances within the financial statements may distort the reader's view as to the potential risks faced by the Group.

Our response

Personnel interviews: We enquired of the Executives and the Chief General Counsel and inspected Board minutes for actual and potential claims arising in the year based on any external communications with the Group and assessed whether provisions are required for these claims. Our enquiries were included as standard questions in all our meetings with those responsible for preparing the financial statements including the divisional Finance Directors, heads of functions at Group and corporate level, the Executive Directors and the Audit and Risk Committee.

Tests of detail: We obtained an understanding and status of existing claims and litigations via enquiries, examining any relevant correspondence and assessing the matters reported to the ARC for discussion and consideration. This included assessing critically managements' assessment regarding the likelihood of the existence of obligations, and the basis used to measure any provisions.

We compared the estimate of the risk and impact of these claims and litigations to third party evidence, where available.

We reviewed the legal expenses incurred in the year to identify any material spend with external legal advisors that may indicate an ongoing claim and made enquiries to ensure the completeness of all claims and litigation assessed by the Board.

Enquiry of lawyers: On the significant legal cases, we requested and obtained formal confirmations from external counsel and inspected any relevant correspondence with external counsel and the claimant to assess the reasonableness of the estimated liability.

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Assessing transparency: We evaluated the adequacy of the Group's provisions and contingent liability disclosures in the financial statements in accordance with accounting standards, and the disclosure of the estimation uncertainty and quantification of that uncertainty where appropriate.

Our findings: We found that the assumptions and estimates were mildly cautious (2019 finding: mildly cautious) given the historic nature of many of the open claims.

We found that section 6.2 provides proportionate (2019 finding: proportionate) disclosure of the contingent liabilities in respect of potential litigation or claims.

The risk	
Pensions obligations The Group reported a net pension deficit liability of £252.1 million as at 31 December 2020 (2019: £252.5 million) See section 5.2 for details of the Group pension schemes and their obligations as at 31 December 2020. Also refer to the Audit and Risk Committee report on pages 80 - 88.	Significant estimates are made in estimating the Group's defined benefit pension obligations and small changes in assumptions and estimates used may have a significant effect on the amounts recorded. There is a risk that the assumptions applied are not appropriate in the context of the pension scheme arrangements. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of pension obligations has a high degree of estimation uncertainty, as a small change in key assumptions can lead to material changes in the obligations. This can result with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 5.2) disclose the sensitivity estimated by the Group. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the key assumptions that the Board has adopted for the purpose of valuing the pension obligations.

Our response

Methodology choice: We used our internal actuarial specialists to consider and assess critically the methodologies applied.

Assessing the valuer's credentials: We evaluated the competence and independence of the external actuaries who are engaged by the Company to estimate the pension scheme obligations for the purpose of the financial statements.

Comparing valuations: We benchmarked the key assumptions applied in determining the Group's defined benefit obligations, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data.

Assessing transparency: We evaluated the adequacy of the disclosures in respect of the sensitivity of the obligations to these assumptions.

Our findings: We found that the assumptions and estimates were balanced (2019 finding: balanced) and the Group's disclosures in section 5.2 to be proportionate (2019 finding: proportionate) in their description of the assumptions and estimates made and the sensitivities of the valuation of the pension obligations to changes in those assumptions and estimates.

The risk	
Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries Investment carrying value £683.3 million (2019: £568.9 million) and amounts due from subsidiaries £2,946.9 million (2019: £2,598.8 million). Refer to section 7.3.1 (accounting policies) and section 7.3.4 (Investments) and Parent Company Balance Sheet	**Low risk, high value** The carrying amount of the Parent Company's investment in, and amounts due from, its subsidiaries represents 17.6% and 75.9% (2019: 16.3% and 74.7%) of its total assets respectively. The Group is undergoing a major transformation, and one that the Board expect will deliver significant revenue growth. The ability of the Group to deliver successfully against the transformation objectives set is a key factor is determining the recoverability and risk of significant misstatement. Due to its materiality in the context of the Parent Company financial statements, the recoverability of the Parent Company's investments in, and amounts due from, its subsidiaries is considered to be the area that had the greatest effect overall on our Parent Company audit.

Our response

Tests of detail: We compared the carrying amount of the investment, and the amounts due from subsidiaries, with the relevant subsidiary's draft statutory balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, was in excess of its carrying amount and assessed whether the subsidiary has historically been profit-making.

Our findings: We found the Parent Company's assessment of the recoverability of the investment in, and amounts due from, subsidiaries to be balanced (2019 finding: balanced). We found the Company's disclosures of the recoverability of investment held by the Parent Company in, and amounts due from, subsidiaries to be proportionate (2019 finding: proportionate).

4 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £7.0 million (2019: £8.0 million), determined with reference to a benchmark of normalised Group profit before tax from continuing operations (PBTCO) of £157.4 million (2019: £211.1 million), of which it represents 4.4% (2019: 3.8%).

We normalised PBTCO by adding back adjustments that do not represent the normal, continuing operations of the Group and additionally in 2020 by averaging over 3 years. The items we adjusted for were impairment charges against goodwill and acquired intangibles of £1.6 million (2019: £41.4 million) (sections 3.3 and 3.4); impairment charges against loans and investment of £0.4 million (2019: nil) (section 2.4); claims and litigation provisions net movements of £0.7 million (2019: £0.8 million) (section 2.4); finance costs of £1.1 million (2019: £6.3 million) (section 4.3); contingent consideration movements of £nil million (2019: £1.4 million) (section 4.5); business exit disposal gain of £33.8 million (2019: nil) (section 2.8); trading business exit expense of £0.3 million (2019: £16.7 million) (section 2.8); non-trading business exit disposal expense of £23.7 million (2019: £52.1 million) (section 2.8); business exit on-hold disposal costs of £7.5 million (2019: nil); and significant restructuring expense of £109.6 million (2019: £159.4 million) (section 2.4). We have not adjusted for the trading profit of the Education Software Solutions ("ESS") business, which is included with business exits and was disposed of in February 2021, as this business was part of the Group for the entirety of the year ended 31 December 2020.

Materiality for the Parent Company financial statements as a whole was set at £6.5 million (2019: £5.2 million), by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total Company assets and represents 0.4% of the Company's total assets (2019: 0.15%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements taken as a whole.

Performance materiality for the Group and the Parent Company was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £4.2 million (2019: £5.2 million) for the Group and £4.5 million (2019: £3.4 million) for the Parent Company. We applied this percentage in our determination of performance materiality based on the number and level of identified misstatements and control deficiencies during the prior period.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements over £0.35 million (2019: £0.4 million) with the exception of reclassification misstatements greater than £1.0 million (2019: £1.0 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 23 key reporting components in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company (2019: 27 in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company). For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these. These procedures covered approximately 86% of total Group revenue (2019: 84%); 74% of the total profits and losses that made up Group profit before tax (2019: 83%); and 88% of total Group assets (2019: 84.0%).

The Group audit team, with the assistance of the component auditors where appropriate, performed procedures on the items excluded from normalised Group PBTCO.

The Group audit team approved the component materiality levels, which ranged from £0.4 million to £5.6 million (2019: £0.4 million to £6.4 million), having regard to the mix of size and risk profile of the Group across the components.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. In the prior year audit, a senior member of the group audit team visited Germany, covering one of the overseas components in scope. Following the outbreak of COVID-19 and the related travel restrictions, we were unable to perform physical site visit to overseas components for the current year audit. To replace these, senior members of the Group audit team held regular virtual meetings with component auditors throughout the audit and in the United Kingdom, Germany and Switzerland. At these virtual meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor. The Group audit team routinely reviewed the audit documentation of all component audits through various stages of their audits.

5 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company, or to cease their operations, and as they have concluded that the Group and the Parent Company's financial position means that this is realistic for at least 18 months from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there are material uncertainties related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of our report.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting, and their identification therein of material uncertainties over the Group and Parent Company's ability to continue to use that basis for the going concern period; and
- The related statement under the Listing Rules set out on page 71 is materially consistent with the financial statements and our audit knowledge.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit and Risk Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board and Audit and Risk Committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and Directors including the short-term incentive plan and long-term incentive plan for management remuneration;
- Using analytical procedures to identify any usual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Parent Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and market consensus and using our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue and profit recognition. In particular the risk that Group and component management may be in a position to make inappropriate accounting entries for long-term contracts, and the risk of bias in accounting estimates and judgements such as contract modifications and terminations.

We also identified fraud risks related to inappropriate capitalisation and recoverability of contract fulfilment assets and inappropriate classification of items excluded from adjusted profit in response to possible pressures to meet profit targets.

Further detail in respect of revenue and profit recognition, capitalisation and recoverability of contract fulfilment assets, and items excluded from adjusted profit is set out in the key audit matter disclosures in section 3 of this report.

In determining the audit procedures, we took into account the results of our evaluation of some of the Group-wide fraud risk management controls which are set out in the Audit and Risk Committee report within the Corporate Governance section of the Group's annual report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user, and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As some of the Group's subsidiaries are regulated, our assessment of risks involved gaining an understanding of the control environment including these entities' procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of some of the Group's subsidiaries' license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, data protection, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities in the Life & Pensions and Employee Benefits sectors. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of provisions and contingent liabilities is set out in the key audit matter disclosures in section 3 of this report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7 We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- We have not identified material misstatements in the Strategic Report and the Directors' Report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

KPMG

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, other than the material uncertainties related to going concern and viability referred to in section 2 of this report, we have nothing further material to add or draw attention to in relation to:

- The Directors' confirmation within the Viability Statement on page 58 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The emerging and principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- The Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement set out on page 58 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- The Directors' statement that they consider that the Annual Report and Accounts, and financial statements, taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- The section of the Annual Report and Accounts describing the work of the Audit and Risk Committee, including the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed; and
- The section of the Annual Report and Accounts that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit. We have nothing to report in these respects.

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 76, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

10 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Robert Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square, London, E14 5GL
16 March 2021

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Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £m	2019[1] £m
Continuing operations:			
Revenue	2.2	**3,324.8**	3,678.6
Cost of sales		**(2,640.6)**	(2,756.4)
Gross profit		**684.2**	922.2
Administrative expenses	2.3, 2.4, 2.8	**(716.2)**	(921.8)
Operating (loss)/profit	2.3, 2.4, 2.8	**(32.0)**	0.4
Share of results in associates and investment gains		**0.8**	(0.6)
Net finance expense	4.3	**(49.6)**	(62.4)
Gain on business disposal	2.8	**31.4**	—
Loss before tax	2.4	**(49.4)**	(62.6)
Income tax credit	2.6	**47.6**	3.5
Loss for the year from continuing operations		**(1.8)**	(59.1)
Discontinued operations:			
Profit for the year	2.9	**20.8**	5.0
Total profit/(loss) for the year		**19.0**	(54.1)
Attributable to:			
Owners of the Company		**14.0**	(64.2)
Non-controlling interests	4.7	**5.0**	10.1
		19.0	(54.1)
Earnings/(loss) per share	2.7		
Continuing: – basic		**(0.41)p**	(4.18)p
– diluted		**(0.41)p**	(4.18)p
Total operations: – basic		**0.85 p**	(3.89)p
– diluted		**0.85 p**	(3.89)p

Adjusted operating profit	2.4	**111.0**	254.5
Adjusted profit before tax	2.4	**65.2**	197.7
Adjusted earnings per share	2.7	**4.19p**	9.30p
Adjusted and diluted earnings per share	2.7	**4.19p**	9.30p

1. The 2019 comparatives have been re-presented to align with the current year allocation of costs between cost of sales and administrative expenses. This has resulted in an increase to cost of sales of £73.4m and an equivalent reduction to administrative expenses.

Consolidated statement of comprehensive income

For the year ended 31 December 2020	Notes	2020 £m	2019 £m
Total profit/(loss) for the year		**19.0**	(54.1)
Other comprehensive expense			
Items that will not be reclassified subsequently to the income statement			
Actuarial loss on defined benefit pension schemes	5.2	**(32.1)**	(106.7)
Deferred tax effect on defined benefit pension schemes	2.6	**10.9**	18.1
Loss on fair value of investments		**(0.7)**	—
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		**(9.0)**	(1.2)
(Loss)/gain on cash flow hedges	4.2.4	**(1.6)**	1.0
Cash flow hedges recycled to the income statement	4.2.4	**(4.5)**	(2.6)
Income tax effect on cash flow hedges	2.6	**1.1**	0.3
Other comprehensive expense for the year net of tax		**(35.9)**	(91.1)
Total comprehensive expense for the year net of tax		**(16.9)**	(145.2)
Attributable to:			
Owners of the Company		**(21.9)**	(155.3)
Non-controlling interests	4.7	**5.0**	10.1
		(16.9)	(145.2)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	3.2	**157.2**	194.3
Intangible assets	3.3	**265.0**	354.2
Goodwill	3.4	**1,120.5**	1,177.8
Right-of-use assets	3.5	**342.1**	480.9
Investments in associates and joint ventures		**5.1**	3.8
Contract fulfilment assets	3.1.3	**294.8**	275.8
Financial assets	4.5	**117.0**	82.2
Deferred tax assets	2.6	**242.8**	181.6
Trade and other receivables	3.1.1	**22.1**	26.4
		2,566.6	2,777.0
Current assets			
Financial assets	4.5	**32.1**	25.1
Disposal group assets held-for-sale	2.8	**114.6**	12.4
Trade and other receivables	3.1.1	**551.0**	748.4
Cash	4.5.4	**460.9**	409.1
Income tax receivable		**2.9**	4.5
		1,161.5	1,199.5
Total assets		**3,728.1**	3,976.5
Current liabilities			
Trade and other payables	3.1.2	**635.0**	619.8
Deferred income		**822.2**	884.5
Overdrafts	4.5.4	**332.7**	286.3
Lease liabilities	4.4,4.5	**77.5**	81.9
Disposal group liabilities held-for-sale	2.8	**53.9**	7.9
Finance liabilities	4.5	**347.8**	351.8
Provisions	3.6	**107.0**	71.3
		2,376.1	2,303.5
Non-current liabilities			
Trade and other payables	3.1.2	**23.6**	6.0
Deferred income		**153.0**	176.5
Lease liabilities	4.4,4.5	**426.0**	480.7
Financial liabilities	4.5	**554.3**	795.7
Deferred tax liabilities	2.6	**6.7**	16.3
Provisions	3.6	**17.4**	9.3
Employee benefits	5.2	**252.1**	252.5
		1,433.1	1,737.0
Total liabilities		**3,809.2**	4,040.5
Net liabilities		**(81.1)**	(64.0)
Capital and reserves			
Share capital	4.6	**34.5**	34.5
Share premium	4.6	**1,143.3**	1,143.3
Employee benefit trust and treasury shares	4.6	**(11.2)**	(11.2)
Capital redemption reserve		**1.8**	1.8
Other reserves		**(13.4)**	0.6
Retained deficit		**(1,289.5)**	(1,295.8)
Deficit attributable to owners of the Company		**(134.5)**	(126.8)
Non-controlling interests	4.7	**53.4**	62.8
Total deficit		**(81.1)**	(64.0)

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of directors on 16 March 2021 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Gordon Boyd
Chief Financial Officer (interim)

Company registered number: 02081330

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total (deficit)/ equity £m
At 1 January 2019	34.5	1,143.3	(11.2)	1.8	(1,135.3)	3.1	36.2	67.1	103.3
Impact of change in accounting standards – IFRS 16[1]	—	—	—	—	(26.8)	—	(26.8)	—	(26.8)
Impact of change in accounting standards – IFRIC 23[2]	—	—	—	—	6.2	—	6.2	—	6.2
At 1 January 2019, after adoption of IFRS 16[1] and IFRC 23[2]	34.5	1,143.3	(11.2)	1.8	(1,155.9)	3.1	15.6	67.1	82.7
(Loss)/profit for the year	—	—	—	—	(64.2)	—	(64.2)	10.1	(54.1)
Other comprehensive expense	—	—	—	—	(88.6)	(2.5)	(91.1)	—	(91.1)
Total comprehensive (expense)/income for the year	—	—	—	—	(152.8)	(2.5)	(155.3)	10.1	(145.2)
Share based payment net of deferred tax effect (note 2.6; note 5.1)	—	—	—	—	3.8	—	3.8	—	3.8
Shares purchased (note 4.6)	—	—	—	—	(0.7)	—	(0.7)	—	(0.7)
Dividends paid[3]	—	—	—	—	—	—	—	(14.4)	(14.4)
Movement in put-options held by non-controlling interests	—	—	—	—	9.8	—	9.8	—	9.8
At 1 January 2020	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,295.8)**	**0.6**	**(126.8)**	**62.8**	**(64.0)**
Profit for the year	**—**	**—**	**—**	**—**	**14.0**	**—**	**14.0**	**5.0**	**19.0**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(21.9)**	**(14.0)**	**(35.9)**	**—**	**(35.9)**
Total comprehensive (expense)/income for the year	**—**	**—**	**—**	**—**	**(7.9)**	**(14.0)**	**(21.9)**	**5.0**	**(16.9)**
Share based payment net of deferred tax effect (note 2.6; note 5.1)	**—**	**—**	**—**	**—**	**5.2**	**—**	**5.2**	**—**	**5.2**
Dividends paid[3]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(14.4)**	**(14.4)**
Movement in put-options held by non-controlling interests	**—**	**—**	**—**	**—**	**9.0**	**—**	**9.0**	**—**	**9.0**
At 31 December 2020	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,289.5)**	**(13.4)**	**(134.5)**	**53.4**	**(81.1)**

1. The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.
2. The Group initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application.
3. Dividends paid and proposed: £14.4m (2019: £14.4m) relate to dividends paid to non-controlling interests. No dividends were declared, paid or proposed in 2020 or 2019 on the Parent Company's ordinary shares.

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Parent Company's equity share capital, comprising 2 1/15p ordinary shares.

Share premium – The amount paid to the Parent Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Employee benefit trust and treasury shares – Shares that have been bought back by the Parent Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

Capital redemption reserve – The Parent Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Retained deficit – Net (losses)/profits accumulated in the Group after dividends are paid.

Other reserves – This consists of foreign currency translation reserve deficit of £8.6m (2019: £0.4m surplus) and cash flow hedging reserve deficit of £4.8m (2019: £0.2m surplus).

Non-controlling interests (NCI) – This represents the equity in subsidiaries that is not attributable directly or indirectly to the Parent Company.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash generated from operations	2.10	**434.2**	32.8
Cash generated from discontinued operations		**18.6**	4.7
Income tax paid		**(8.8)**	(5.4)
Net interest paid		**(47.7)**	(58.4)
Net cash inflow/(outflow) from operating activities		**396.3**	(26.3)
Cash flows from investing activities			
Purchase of property, plant and equipment	3.2	**(40.8)**	(57.7)
Purchase of intangible assets	3.3	**(46.6)**	(124.7)
Proceeds from sale of property, plant and equipment/intangible assets	2.3, 3.2, 3.3	**13.5**	0.4
Additions to investments in associates		**(0.6)**	(0.6)
Additions to investments held at fair value		**(0.3)**	—
Disposals of investments held at fair value		**3.9**	—
Deferred consideration paid		**—**	(1.3)
Contingent consideration paid		**(4.9)**	(2.4)
Subsidiary partnership payment		**(9.4)**	(9.4)
Capital element of lease rental receipts		**2.8**	—
Net proceeds/(loss) on disposal of subsidiary undertakings	2.8	**51.3**	(8.9)
Cash disposed of with subsidiary undertakings	2.8	**(3.2)**	—
Net cash outflow from investing activities		**(34.3)**	(204.6)
Cash flows from financing activities			
Dividends paid to non-controlling interests		**(14.4)**	(14.4)
Purchase of shares	4.6	**—**	(0.7)
Capital element of lease rental payments	2.10.3	**(98.0)**	(93.7)
Repayment of private placement loan notes	2.10.3	**(242.9)**	(96.8)
Proceeds from cross-currency interest rate swaps	2.10.3	**24.5**	10.9
Repayment of term loan	2.10.3	**—**	(100.0)
Financing arrangement costs	2.10.3	**(0.5)**	(1.1)
Net cash outflow from financing activities		**(331.3)**	(295.8)
Increase/(decrease) in cash and cash equivalents		**30.7**	(526.7)
Cash and cash equivalents at the beginning of the period		**119.3**	642.7
Effect of exchange rates on cash and cash equivalents		**(8.9)**	3.3
Cash and cash equivalents at 31 December		**141.1**	119.3
Cash and cash equivalents comprise:			
Cash	4.5.4	**460.9**	409.1
Overdrafts	4.5.4	**(332.7)**	(286.3)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale	2.8	**12.9**	(3.5)
Total		**141.1**	119.3

Adjusted cash generated from operations	2.10	**367.5**	213.6
Adjusted free cash flows	2.10	**238.6**	(23.2)

The accompanying notes are an integral part of these consolidated financial statements.

Section 1: Basis of preparation

This section sets out the Group's accounting policies relating to these consolidated financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

In this section you will also find details of new accounting standards, amendments and interpretations including their effective dates and explanation on the expected impact to the financial position and performance of the Group.

For ease of reference, this symbol has been used to denote any accounting policies included within the notes:

AP **Denotes accounting policies**

These financial statements consolidate those of Capita plc (the Company or the Parent Company) and all of its subsidiaries (the Group). Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The principal activities of the Group are given in the strategic report on pages 26 to 37.

These consolidated financial statements of Capita plc for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 16 March 2021.

These consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated.

Statement of compliance
These consolidated financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis of consolidation
These consolidated financial statements comprise the financial statements of the Group at 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, these consolidated financial statements include the results for that part of the reporting year during which Capita plc had control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in subsidiaries are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

Investments in associates are accounted for using the equity method. Under the equity method, the investment in the entity is stated as a one line item at cost plus the investor's share of retained post-acquisition profits or losses and other changes in net assets less any impairment.

Going concern
In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2020, the directors are required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, as set out below, and that align with the viability statement as set out on page 58.

Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. In the prior year, the Board considered an extended period out to 31 August 2022 (30 months) which aligned with the expiry of the revolving credit facility (RCF). The Board continue to consider the period out to 31 August 2022 for the purpose of the going concern assessment, which reflects a period of at least 18 months from the date of approval of these financial statements (the going concern period). While this is a shorter period, it does align with the expiry of the RCF which is a key consideration. The Board have also considered any committed outflows beyond this period in forming their assessment.

The base case projections prepared for the going concern assessment are derived from the 2021–2023 business plans (BP) as approved by the Board in February 2021. The BP captures the benefits that the transformation plan is anticipated to deliver, and the costs to achieve these.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. Many parts of the Group have demonstrated resilience throughout 2020, adapting to address the impact of Covid-19, but as discussed at the half year, the pandemic has slowed the progress of the transformation plan. The impact has been incorporated within the base case projections.

The going concern assessment considers the Group's existing debt facilities, committed funding and liquidity positions, and covenant compliance throughout the period under review. The Group's committed RCF (£452.0m at 31 December 2020) matures in August 2022 but the Group is targeting completion of its refinancing agenda during 2021, which it expects will include a RCF with a maturity at least a year later. There are scheduled debt repayments totalling £277m over the period to August 2022, with a further repayment of c.£163m in November 2022 on the private placement loan notes. Details of the covenant requirements and definitions are set out in section 8.2.

Financial position at 31 December 2020
The Group had net debt of £1,077.1m at 31 December 2020 (2019: £1,353.2m) and adjusted net debt of £616.4m (2019: £832.7m). Adjusted EBITDA was £293.0m at 31 December 2020 (2019: £439.4m). The Group was in compliance with all debt covenants at 31 December 2020 (see section 8.2).

Board assessment

Base case scenario
Under the base case projections, the transformation plan will simplify and strengthen the business and drive a reduced cost base to generate sustainable revenue growth and cash flows. Details of the plan are set out in the strategic report on pages 10 to 16.

This realises positive free cash flows, and when combined with available committed facilities allows the Group to manage the scheduled debt repayments. Under the base case there is liquidity headroom throughout the forecast period to 31 August 2022, and compliance with all covenant measures.

The base case assumes the extension of the RCF as set out above, given the improved financial position of the Group which benefits from the successful delivery of the transformation plan. The key sensitivity to the base case is the execution risk associated with delivering the revenue growth, exacerbated should the pandemic continue to impact the Group's activities.

Section 1: Basis of preparation continued

Severe but plausible downside
In considering the severe but plausible downside scenarios the Board has considered trading downside risks, which assumes the transformation plan is not successful in delivering the anticipated revenue growth, together with increased attrition, and further impacts of Covid-19. In addition, the downside scenario includes potential adverse financial impacts that could arise from unforeseen operational issues leading to contract losses and cash outflows, and unexpected potential fines and losses linked to incidents such as data breaches and/or cyber attacks.

There are mitigations, under the direct control of the Group, that the Board can introduce to address these shortfalls. These include continued reductions to variable pay rises, setting aside any bonus payments and limiting discretionary spend. While these are available as possible short-term mitigations and would be actioned if required to ensure compliance with debt covenants, the Board is mindful that such restrictions may be detrimental to the success of the transformation plan. In addition, such actions would not address the liquidity requirements beyond the going concern period. Absent these mitigating actions, on a downside scenario there is insufficient headroom to ensure compliance with the debt covenants throughout the measurement period to 31 August 2022, and insufficient liquidity taking into account the facilities currently available, due to a combination of the downside risks crystallising and scheduled debt repayments.

To address the resilience of the Group to such downside scenarios, the Board has been exploring a refinancing of the debt maturities to reprofile the debt repayments to align with the completion of the transformation programme while also providing the financial support necessary to complete the required investments. While refinancing was not completed in 2020, the Board did successfully arrange backstop facilities in February and August 2020, is already in discussion with lenders, and is targeting completion of a refinancing in 2021.

In addition to refinancing, the Board has approved a continuation of the previously announced disposal programme which covers businesses that do not align with the longer-term strategy for the Group.

The Group has a strong track record of executing major planned disposals. Examples include net cash proceeds from the disposal of the Asset Services business in 2017 (c.£865m) and ParkingEye and Constructionline in 2018 (c.£390m). More recently the Group generated net cash proceeds of c.£50m from the disposal of Eclipse Legal Services in June 2020 and c.£300m from the disposal of the Education Software Solutions business in February 2021. The Board is confident that the disposal programme can be delivered given the strength of the underlying businesses and the value they deliver. The planned disposals will introduce considerable net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits associated with these businesses.

The net proceeds received during 2020 have been effective in reducing the Group’s indebtedness from £1,353.2m at 31 December 2019 to £1,077.1m at 31 December 2020. The deferral of £118.8m of VAT under the Government’s Covid-19 measures has also contributed to this reduction in net debt.

Material uncertainties
The Board recognises that any refinancing, should the severe downside play out, would require third party agreements from lenders. Furthermore, the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals are outside the direct control of the Company. Accordingly, these events give rise to material uncertainties, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group’s and Parent’s ability to continue as a going concern and, therefore, that the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Reflecting the Board’s confidence in the transformation programme, ability to refinance, and execution of the approved disposal programme, the Company continues to adopt the going concern basis in preparing the financial statements. The Board has concluded that the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due over the period to 31 August 2022. Consequently, these financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

Foreign currency translation
The functional and presentation currency of Capita plc and its United Kingdom (UK) subsidiaries is the British pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also taken directly to equity. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas operations include the euro, Indian rupee, South African rand, and the US dollar. At the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita plc at the exchange rate ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative foreign currency translation difference recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Recoverable amount of non-current assets
At each reporting date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset’s recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset’s, or cash-generating unit’s, fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Section 1: Basis of preparation continued

Significant accounting judgements, estimates and assumptions
The preparation of financial statements in accordance with generally accepted accounting principles requires the directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the presented periods. Although these judgements and assumptions are based on the directors' best knowledge of the amount, events or actions, actual results may differ.

The potential impact of Covid-19 on the Group has been considered in the preparation of these consolidated financial statements, including management's evaluation of critical accounting estimates and judgements. The impact on the Group has varied by business.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. There have also been direct impacts on revenue and costs arising from: new contracts helping customers respond to the pandemic; costs of setting up colleagues to work remotely; the release of the 2019 bonus accruals; and utilisation of the Government's furlough scheme. The Board has not reported these items separately, but where there is an impact this is captured in the divisional performance reviews.

The Board has continued with a policy to separately identify items such as restructuring, where the plans have been advanced and adapted in response to Covid-19 and these are set out in note 2.4. The Board has also considered the impact on the provisions recorded at 31 December 2020, with no significant adjustments recorded, and the valuation of the defined benefit pension scheme.

As described in note 2.1, given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. This risk is increased further by the uncertainly Covid-19 brings to forecasting.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are summarised below and set out in more detail in the related note:

- Contract accounting (note 2.1)
  - Impairment of contract fulfilment assets
  - Onerous contract provisions
- The impairment of goodwill (note 3.4)
- The measurement of defined benefit obligations (note 5.2)

The key areas where significant accounting judgements have been made are summarise below and set out in more detail in the related note:

- The capitalisation of contract fulfilment assets (note 3.1)
- The measurement of goodwill (note 3.4)
- The measurement of provisions (note 3.6) and contingent liabilities (note 6.2)

For ease of reference, this symbol has been used to denote significant accounting judgements and estimates where they occur within the note:

J **Denotes significant accounting judgements, estimates and assumptions**

New standards and interpretations adopted
The accounting policies adopted are consistent with those of the previous financial year. In addition, the Group has adopted the new amendments to standards detailed below but they do not have a material effect on the Group's consolidated financial statements.

New amendments or interpretation	Effective date
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Covid-19-Related Rent Concessions – amendments to IFRS 16	1 June 2020

New standards and interpretations not yet adopted
The IASB has issued the following standards, amendments and interpretations with an effective date after the date of these consolidated financial statements. These are effective for annual reporting periods beginning on or after the date indicated:

International Accounting Standards (IAS/IFRS)	Effective date
Not endorsed at 31 December 2020:	
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023

Section 2: Results for the year

This section contains notes related to the financial performance of the Group. These include:

2.1 Contract accounting
2.2 Revenue including segmental revenue
2.3 Operating profit
2.4 Adjusted operating profit and adjusted profit before tax
2.5 Segmental information
2.6 Taxation
2.7 Earnings/(loss) per share
2.8 Business exits and assets held-for-sale
2.9 Discontinued operations
2.10 Cash flow information

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Adjusted revenue[1]

£3,181.2m

(2019: £3,501.0m)

Adjusted free cash flow[1]
Aim: Achieve sustainable, long-term free cash flow growth

£238.6m

(2019: £(23.2)m)

Adjusted profit before tax[1]
Aim: achieve long-term growth in profit

£65.2m

(2019: £197.7m)

Adjusted earnings per share (EPS)[1]
Aim: achieve long-term growth in EPS

4.19p

(2019: 9.30p)

Reported revenue

£3,324.8m

(2019: £3,678.6m)

Reported free cash flow

£303.8m

(2019: £(213.0)m)

Reported loss before tax

£(49.4)m

(2019: £(62.6)m)

Reported loss per share (EPS) – continuing operations

(0.41)p

(2019: (4.18)p)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

In 2020 the Group's adjusted revenue[1] declined as a result of 2019 contract losses and the economic impact of the Covid-19 pandemic on transactional revenue and volume-based framework contracts which were not offset by contract wins. The negative impact on adjusted profit before tax[1] of the revenue reduction, other cost increases and unplanned contractual one-offs could not be off-set by cost savings, both transformational and in response to the pandemic. The lower level of profit was more than offset by improvements in working capital and a reduction in capital expenditure, resulting in adjusted free cash inflow[1] of £238.6m (2019: £23.2m outflow).

The Group had additional cash inflows of £65.2m, which included inflows arising from non-recourse receivables financing (£13.6m), VAT deferral (£118.8m) and business exit gains (£33.9m), which were partially offset by outflows relating to restructuring (£64.1m) and pension deficit payments (£29.5m). This resulted in headline net debt decreasing to £1,077.1m (2019: £1,353.2m).

Revenue
Adjusted revenue[1] declined by 9.1% year-on-year. For additional information, which does not form part of these consolidated financial statements, the interim Chief Financial Officer's review in the strategic report includes a bridge of drivers of the movement.

There were one-offs in 2019 of £39.3m related to contract termination payments and releases of deferred income from contract modifications.

The reduction in revenue was due to contract losses in 2019, mainly in Local Government and a number of losses in Specialist Services which were not offset by contract wins including the DFRP contract, a project in Customer Management and a number of smaller wins across all divisions.

There was a net reduction of £152.6m attributed to Covid-19, largely due to lower transactional revenue, including a number of our framework agreements which are driven by volumes. This reduction was offset by additional revenue won, predominantly within Government Services to assist with the UK's response to the pandemic.

In 2020, one-off benefits similar to 2019, of £14.7m, related to the release of deferred income from a contract modification.

The difference of £143.6m between adjusted revenue of £3,181.2m and reported revenue of £3,324.8m is related to business exits in the year (refer to note 2.8).

Profit before tax
Adjusted profit before tax[1] declined by 67.0% year-on-year. For additional information, which does not form part of these consolidated financial statements, the interim Chief Financial Officer's review in the strategic report includes a bridge of drivers of the movement.

The adjusted profit before tax[1] decreased as a result of the following the profit impact of the following:

- The reversal of one-off contract related items in 2019 relating to the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications.
- The benefit from contract wins (which includes the initial loss on the DFRP contract of £15m (refer to note 2.1)) not yet replacing profits from lost contracts.
- Scope and volume reductions, and other cost increases, partly mitigated by cost savings from the transformation cost competitiveness programme.
- Other cost increases, such as, inflation (including the commitment in the UK to the real living wage), additional depreciation, amortisation and running costs on completed transformation programmes, and an increase in bad debt provision.
- Reduction in transactional revenue (mostly attributable to Covid-19) which has a high initial margin impact due to fixed and semi-fixed cost base. This could not be fully mitigated by cash preservation actions, for example the impact of furloughing employees.
- Unplanned contractual one-offs of £23.9m, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments.

Adjusted profit before tax[1] excludes a number of specific items so users of these consolidated financial statements can more clearly understand the financial performance of the Group. Reported loss before tax was £49.4m (2019: loss £62.6m). A reconciliation of the adjusted profit before tax[1] to reported loss before tax is detailed in note 2.4.

Reported operating loss for the year was £32.0m (2019: profit £0.4m). Details of items charged/credited in arriving at operating profit can be found in note 2.3.

Taxation
The income tax credit of £13.6m on adjusted profit before tax[1] resulted in an adjusted tax rate of (20.9)% (2019: income tax charge of £29.0m and adjusted tax rate 14.7%). This is different from the UK statutory rate of tax of 19% predominantly due to the UK corporation tax rate change impact on deferred tax, and a partial release of the unremitted earnings provision due to tax rate reduction on overseas dividend distributions.

Earnings per share (EPS)
The movement in adjusted basic earnings per share[1] for continuing operations and reported basic earnings per share was as a result of the performance explained above.

Dividend
The Board is not recommending the payment of a final dividend (2019: £nil). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return and will consider the payment of dividends when the Group is generating sufficient sustainable free cash flow.

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

Adjusted free cash flow[1]

Adjusted free cash flow[1] in 2020 was an inflow, as improved contractual working capital movements and inflows from other working capital more than off-set the decline in adjusted operating profit.

We have analysed working capital between 'contractual' – being those balances which relate to long-term contract movements of deferred income, accrued income and contract fulfilment assets to derive cash from trading operations – and 'other working capital', which represents routine normal working capital items such as trade receivables, trade payables and prepayments.

Adjusted operating profit to adjusted free cash flow[1]	2020 £m	2019 £m
Adjusted operating profit[1]	**111.0**	254.5
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	**182.0**	184.9
Adjusted EBITDA	**293.0**	439.4
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	**(42.5)**	(215.7)
Cash from trading operations*	**250.5**	223.7
Net capital expenditure	**(72.4)**	(172.9)
Other working capital	**60.5**	(74.0)
Adjusted free cash flow[1]	**238.6**	(23.2)

* Cash from trading operations defined as adjusted EBITDA less contractual working capital movements.

Cash from trading operations increased to £250.5m (2019: £223.7m) due to reduction in contractual working capital outflows.

Contractual working capital improved with an outflow of £42.5m (2019: outflow £215.7m) due to:

- An accrued income inflow of £27m, driven by invoice phasing in Technology Solutions and the impact of lower revenues across People Solutions and Software.
- A reduced deferred income outflow of £154m, largely from advanced receipts and higher activity levels on the DFRP contract where cash has been received in 2020 in respect of transformation, and invoice timing on a contract with a telecom customer, compared to an outflow in 2019 which included the £78m one-off impact of ending local government contracts, offset by
- A contract fulfilment asset outflow of £8m, mostly from an increase in additions on Government Services contracts, the most significant being on the DFRP contract, offset by contract asset write off's in Customer Management and Government Services.

Net capital expenditure decreased in 2020 in line with previously planned reductions as we drove focused investment and Group cash preservation methods in response to the pandemic.

Other working capital related cash inflows reflected shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and actions taken to improve working capital.

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

2.1 Contract accounting

At 31 December 2020, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2020 £m	2019 £m
Long-term contractual adjusted revenue	2.2	**2,317.0**	2,491.5
Non-current and current deferred income		**975.2**	1,061.0
Non-current contract fulfilment assets	3.1.3	**294.8**	275.8
Non-current and current onerous contract provision		**16.5**	6.1

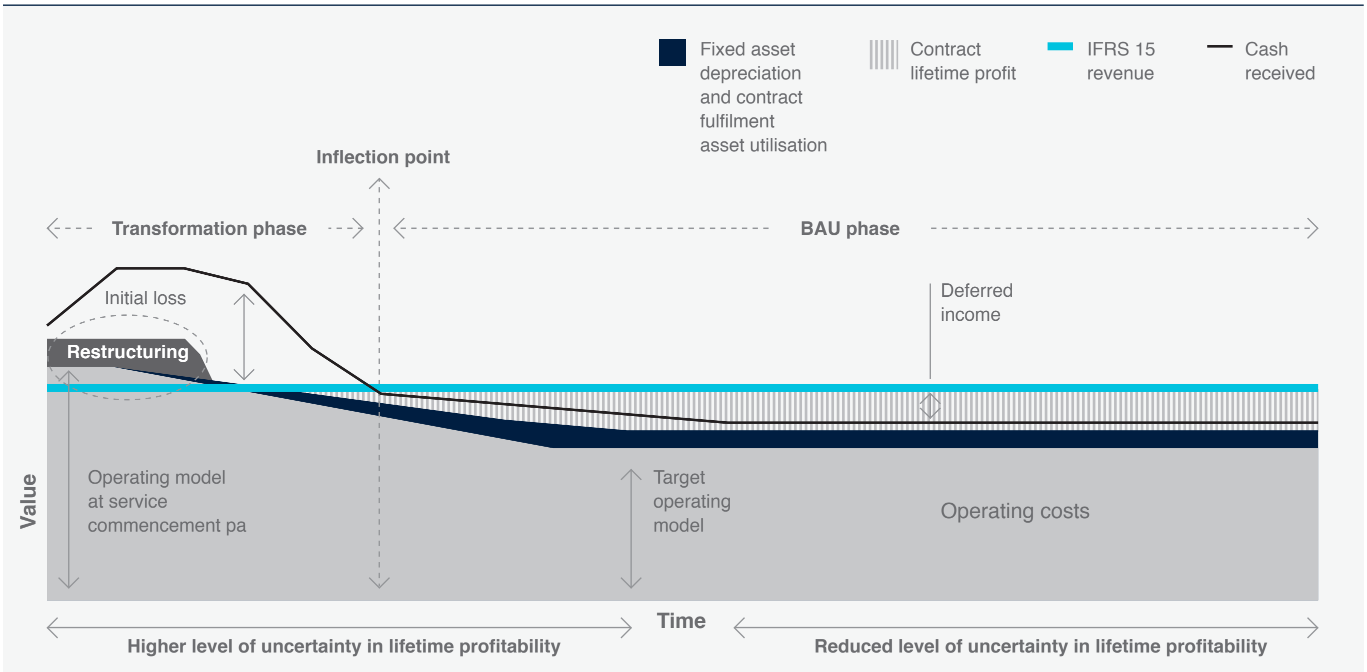
Background
The Group operates a number of diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), being 73% of Group adjusted revenue in 2020 (2019: 71%).

These long-term contracts can be complex in nature given the breadth of solutions the Group offers and the transformational activities involved. Typically, Capita takes a customer's process and transforms it into a more efficient and effective solution which is then operated for the customer. The outcome is a high quality solution that addresses a customer's needs and is delivered consistently over the life of the contract.

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity. Capita will often incur greater costs during the transformation phase with costs diminishing overtime as the target operating model is implemented and efficiencies realised. This results in lower profits or losses in the early years of contracts and potentially higher profits in later years as the transformation activities are successfully completed and the target operating model fully implemented (the business as usual (BAU) phase). The inflection point is when the contract becomes profitable.

Contract fulfilment assets are recognised for those costs qualifying for capitalisation and the utilisation of these assets is recognised over the contract term. The cash received from our customers reflects when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released as the Group continues to deliver against its obligation to provide services and solutions to its customers.

An example, showing the revenue, cost, profit and cash profit of a typical long-term contract lifecycle is as follows:



J Significant accounting judgements, estimates and assumptions

Due to the size and complexity of some of the Group's contracts, there are significant judgements to be applied, specifically in assessing: (1) the recoverability of contract fulfilment assets; and (2) the completeness of onerous contract provisions. These judgements are dependent on assessing the contract's future profitability. It is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. This risk is increased further by the uncertainty Covid-19 brings to forecasting.

It should be noted that while management must make judgements in relation to applying the revenue recognition policy and recognition of related balance sheet items (trade receivables; deferred income; and accrued income) these are not considered significant judgements (refer to note 2.2 for the Group's policies).

Section 2: Results for the year continued

2.1 Contract accounting continued

Assessing contract profitability
In assessing a contract's future lifetime profitability, management must estimate forecast revenue and costs to both transform and run the service over the remaining contract term. The ability to accurately forecast the outcomes involves estimates in respect of: costs to be incurred; cost savings to be achieved; future performance against any contract-specific key performance indicators (KPIs) that could trigger variable consideration or service credits; and the outcome of any commercial negotiations.

The level of uncertainty in the estimated future profitability of a contract is directly related to the stage of the life-cycle of the contract and the complexity of the performance obligations. Contracts in the transformation stage and pre-inflection stages are considered to have a higher level of uncertainty because of:

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation: for example, where they are involved in signing off that the new process or the new technical solution designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

Those contracts which are post-inflection and in BAU stage tend to have a much lower level of uncertainty in estimating the contract's future profitability.

Recoverability of contract fulfilment assets and completeness of onerous contract provisions
Management first assesses whether the contract assets are impaired and then further considers whether an onerous contract exists. The Audit and Risk Committee specifically reviews the material judgements and estimates and the overall approach in respect of the Group's major contracts for each reporting period, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. Other contracts are reported to the Audit and Risk Committee as deemed appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £1.5billion (2019: £1.4billion) or 47% (2019: 40%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2020 were £294.8m, of which £152.7m (2019: £80.7m) relates to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets were, in aggregate, £44.5m at 31 December 2020 (2019: £52.4m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £232.3m at 31 December 2020 (2019: £243.6m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts.

Following these reviews, as outlined in note 3.1.3, contract fulfilment asset provisions of £17.5m (2019: £9.6m) were identified and recognised within adjusted cost of sales, of which £2.0m (2019: £2.2m) relates to contract fulfilment assets added during the period, and net onerous contract provisions of £10.4m (2019: £(1.3)m) were identified and recognised within adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £152.7m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £44.5m of non-contract fulfilment assets relates to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain of the major contracts in transformation have key milestones during the next 12 months and inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include Primary Care Support England (PCSE) and Electronic Monitoring Services (EMS).

Additional information, which does not form part of these consolidated financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

2.2 Revenue including segmental revenue

AP **Accounting policies**

Revenue
The Group generates revenue largely in the UK and Europe. The Group operates a number of diverse businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point-in-time' recognition) or 'overtime' as control of the performance obligation is transferred to the customer.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (MSA) or Frameworks not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The Group enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are:

(i) distinct – to be accounted for as separate performance obligations;
(ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or,
(iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value, or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

The Group infrequently sells standard products with observable standalone prices due to the specialised services required by clients and therefore the Group applies judgement to determine an appropriate standalone selling price. More frequently, the Group sells the customer a bespoke solution, and in these cases the Group typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

The Group may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in the contract.

For each performance obligation to be recognised overtime, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, in particular for long-term service contracts where the series guidance is applied, the Group often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimations of: user numbers; service activity levels; or fees collected.

If performance obligations in a contract do not meet the overtime criteria, the Group recognises revenue at a point-in-time when the service or good is delivered.

Contract modifications
The Group's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new, or changes existing, enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

a) prospectively as an additional separate contract;
b) prospectively as a termination of the existing contract and creation of a new contract;
c) as part of the original contract using a cumulative catch up; or,
d) as a combination of (b) and (c).

For contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised overtime, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part-termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end because management need to determine if a modification has been approved and if it either creates new, or changes existing, enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken through an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management uses judgement to estimate the change in total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent
The Group has arrangements with some of its clients whereby it needs to determine if it acts as a principal or an agent because more than one party is involved in providing the goods and services to the customer. The Group is a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably: the discretion the Group has in establishing the price for the specified good or service; whether the Group has inventory risk; and whether the Group is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement particularly in relation to certain service contracts. An example is the provision of certain recruitment and learning services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded on a net basis reflecting the margin earned.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

Licences
Software licences delivered by the Group can either be right to access (active) or right to use (passive) licences, which determines the timing of revenue recognition. The assessment of whether a licence is active or passive involves judgement.

The key determinant of whether a licence is active is whether the Group is required to undertake continuing activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive (or negative) impacts resulting from those changes. The Group is in a majority of cases responsible for any maintenance, continuing support, updates and upgrades, and accordingly the sale of the initial software is not distinct. All other licences which have significant standalone functionality are treated as passive licences.

When software upgrades are sold as part of the software licence agreement (ie software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrades are distinct from the licence (ie a separate performance obligation). If the upgrades are considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

The Group considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised overtime (active) or at a point-in-time (passive) from the go live date of the licence.

Deferred and accrued income
The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and/or services being provided. This can include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. The long-term service contracts tend to have higher cash flows early on in the contract to cover transformational activities.

Where payments made to date are greater than the revenue recognised up to the reporting date, the Group recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised up to the reporting date, the Group recognises an accrued income contract asset for this difference.

At each reporting date, the Group assesses whether there is any indication that accrued income assets may be impaired by considering whether the revenue remains highly probable that no revenue reversal will occur. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Contract types
The Group disaggregates revenue from contracts with customers by contract type, because management believe this best depicts how the nature, amount, timing, and uncertainty of the Group's revenue and cash flows are affected by economic factors. Categories are: long-term contractual – greater than two years; short-term contractual – less than two years; and transactional. The years being measured from the service commencement date.

Long-term contractual – greater than two years
The Group provides a range of services in the majority of its reportable segments under customer contracts with a duration of more than two years. The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

(i) long-term outsourced service arrangements in the public and private sectors; and

(ii) active software licence arrangements.

The majority of long-term contractual agreements form part of a series of distinct goods and services because they are substantially the same service; and have the same pattern of transfer, since the series constitutes services provided in distinct time increments (eg daily, monthly, quarterly or annually), and therefore treats the series as one performance obligation.

Short-term contractual – less than two years
The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

(i) short-term outsourced service arrangements in the public and private sectors; and

(ii) software maintenance contracts.

The Group has assessed that maintenance and support (ie on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same because the nature of the promise is for the Group to 'stand ready' to perform maintenance and support when required by the customer. Each day of 'standing ready' is distinct from each following day and is transferred in the same pattern to the customer.

Transactional (point-in-time) contracts
The Group delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point-in-time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods or services and acceptance by the customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

(i) provision of IT hardware goods;
(ii) passive software licence agreements;
(iii) commission received as agent from the sale of third-party software; and
(iv) fees received in relation to the delivery of professional services.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.1 Segmental revenue

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the service provision for each segment can be found in the strategic report on pages 26 to 37.

The tables below present revenue for the Group's business segments for the years 2020 and 2019. During 2020, there were a number of transfers of businesses between the segments due to changes in the structure and how the business performance is measured and monitored, relevant to the KPIs for the segment. Comparative information has been re-presented accordingly. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,181.2m (2019: £3,501.0m), an organic decline of 9.1% (2019: 4.4%).

Year ended 31 December 2020	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		**232.2**	**284.5**	**902.1**	**574.0**	**266.9**	**43.3**	**14.0**	**2,317.0**	**126.3**	**2,443.3**
Short-term contractual		**9.8**	**77.8**	**235.7**	**8.9**	**24.7**	**110.7**	**3.4**	**471.0**	**18.5**	**489.5**
Transactional (point-in-time)		**4.0**	**109.7**	**1.9**	**140.9**	**93.4**	**42.5**	**0.8**	**393.2**	**(1.2)**	**392.0**
Total segment revenue		**246.0**	**472.0**	**1,139.7**	**723.8**	**385.0**	**196.5**	**18.2**	**3,181.2**	**143.6**	**3,324.8**
Trading revenue		**298.6**	**584.0**	**1,294.0**	**751.2**	**608.5**	**209.4**	**61.3**	**3,807.0**	**—**	**3,807.0**
Inter-segment revenue		**(52.6)**	**(112.0)**	**(154.3)**	**(27.4)**	**(223.5)**	**(12.9)**	**(43.1)**	**(625.8)**	**—**	**(625.8)**
Total adjusted segment revenue		**246.0**	**472.0**	**1,139.7**	**723.8**	**385.0**	**196.5**	**18.2**	**3,181.2**	**—**	**3,181.2**
Business exits – trading	2.8	**97.8**	**10.4**	**30.3**	**—**	**—**	**5.1**	**—**	**—**	**143.6**	**143.6**
Total segment revenue		**343.8**	**482.4**	**1,170.0**	**723.8**	**385.0**	**201.6**	**18.2**	**—**	**—**	**3,324.8**

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		234.5	310.6	900.8	647.8	317.5	61.4	18.9	2,491.5	147.4	2,638.9
Short-term contractual		12.7	82.3	248.1	19.0	41.7	142.0	2.4	548.2	15.4	563.6
Transactional (point-in-time)		4.9	142.1	1.7	126.6	90.7	92.2	3.1	461.3	14.8	476.1
Total segment revenue		252.1	535.0	1,150.6	793.4	449.9	295.6	24.4	3,501.0	177.6	3,678.6
Trading revenue		305.7	729.6	1,283.5	820.2	698.4	315.9	79.0	4,232.3	—	4,232.3
Inter-segment revenue		(53.6)	(194.6)	(132.9)	(26.8)	(248.5)	(20.3)	(54.6)	(731.3)	—	(731.3)
Total adjusted segment revenue		252.1	535.0	1,150.6	793.4	449.9	295.6	24.4	3,501.0	—	3,501.0
Business exits – trading	2.8	107.9	13.0	31.0	—	—	25.7	—	—	177.6	177.6
Total segment revenue		360.0	548.0	1,181.6	793.4	449.9	321.3	24.4	—	—	3,678.6

Geographical location

The table below presents revenue by geographical location.

	2020			2019		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Revenue	**3,011.0**	**313.8**	**3,324.8**	3,358.4	320.2	3,678.6

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.2 Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are wholly or partially unsatisfied. The current environment has contributed to the Group's order book declining with contract wins not offsetting revenue recognised in the period, however, in January 2021 the Group signed a contract with the Royal Navy which represents a £0.9 billion addition to the order book which is not included below. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2020	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	489.6	533.4	2,106.8	1,980.8	338.4	201.0	4.4	5,654.4
Short-term contractual	21.3	1.0	27.9	76.2	31.8	33.2	4.9	196.3
Total	510.9	534.4	2,134.7	2,057.0	370.2	234.2	9.3	5,850.7

Order book 31 December 2019	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	496.7	497.2	2,734.0	2,140.6	344.0	259.0	2.9	6,474.4
Short-term contractual	81.7	—	26.5	36.1	45.7	47.6	7.6	245.2
Total	578.4	497.2	2,760.5	2,176.7	389.7	306.6	10.5	6,719.6

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2020:

Time bands expected revenue recognition from long-term contractual orders	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
< 1 year	221.0	199.3	691.5	403.9	117.7	29.1	1.0	1,663.5
1–5 years	243.1	334.1	1,185.0	1,179.1	175.1	46.0	3.4	3,165.8
> 5 years	25.5	—	230.3	397.8	45.6	125.9	—	825.1
Total	489.6	533.4	2,106.8	1,980.8	338.4	201.0	4.4	5,654.4

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above because they are not contracted. In addition, revenue from contract extensions is also excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £800.7m (2019: £605.4m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.7 billion (2019: £6.5 billion) revenue to be earned on long-term contractual, £3.8 billion (2019: £4.4 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £2.1 billion (2019: £1.8 billion) of revenue to the Group over the life of these contracts.

No single customer makes up more than 10% of the Group's revenues.

2.2.3 Deferred Income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £998.7m (2019: £1,119.3m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £17.5m relating to the partial termination of a contract in Customer Management.

Section 2: Results for the year continued

2.3 Operating profit

2.3.1 Items charged/(credited) to reported operating profit

	Notes	2020 £m	2019 £m
Depreciation of property, plant and equipment	3.2	**50.9**	60.3
Depreciation of right-of-use assets	3.5	**88.2**	99.2
Impairment of property, plant and equipment	3.2	**10.3**	14.7
Amortisation of intangible assets	3.3	**74.6**	81.4
Impairment of intangible assets	3.3	**2.6**	13.8
Loss on sale of property, plant and equipment and intangibles	2.10.1	**17.1**	1.8
Foreign exchange differences		**(1.0)**	2.9
Restructuring costs	2.4	**109.6**	159.4
Contract fulfilment asset utilisation, impairment and derecognition	3.1.3	**105.0**	102.3
Contract termination gains		**—**	(13.3)
The net of: accelerated deferred income unwind, and contract fulfilment asset utilisation		**(15.4)**	(24.9)
Onerous contract provisions		**10.4**	(1.3)

Contract fulfilment asset utilisation, impairment and derecognition: the Group undertook a comprehensive review of its major contracts to identify indicators of impairment of contract fulfilment assets. Following this review, management made provisions against costs capitalised as contract fulfilment assets totalling £17.5m (2019: £9.6m) within cost of sales.

Contract termination gains: customer contracts usually contain provisions to compensate the Group for exit costs and future profits in the event of early termination. In-year customer contract terminations in Government Services for customer convenience have led to associated exit fees earned by Capita of £nil (2019: £9.3m) being recorded as income in-year and £nil (2019: £4.0m) of fees relating to final settlement of the Prudential contract termination.

The net of: accelerated deferred income unwind and contract fulfilment asset utilisation: in 2020 the Group recognised gains of £15.4m (2019: £24.9m) related to the net of accelerated deferred income unwinds and contract fulfilment asset utilisation. In 2020 and 2019, this primarily related to contracts in the Customer Management division where the scope of our services changed due to the partial termination of the contracts. The other gains in 2020 related to hand backs of various services in contracts within the Government Services division and in 2019 the extension of a contract in the Customer Management division.

Onerous contract provisions: in 2020 the Group recognised net losses of £10.4m (2019: £1.3m gain) related to onerous contract provisions.

2.3.2 Fees payable to auditors

The amounts included in the table below relate to fees payable to KPMG LLP and its associates:

	2020 £m	2019 £m
Audit and audit-related services		
The audit of the Parent Company and Group's consolidated financial statements	**4.3**	3.7
The audit of the financial statements of subsidiaries of the Group	**1.9**	2.2
Total audit and audit-related services	**6.2**	5.9
Non-audit services		
Other assurance services	**1.4**	0.2
Total non-audit services	**1.4**	0.2
Total audit and non-audit services	**7.6**	6.1

The non-audit fees in respect of 2020 related to the review of interim results, services as reporting accountant for the disposal of the Education Software Solutions business, and a refinancing which had to be aborted due to the impact Covid-19 had on the debt markets during the year.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax

AP Accounting policies

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

The Board has adopted a policy to separately disclose those items that it considers are outside the underlying operating results for the particular year under review and against which the Group's performance is assessed. In the Board's judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying in-year performance of the Group. Accordingly, these items are also excluded from the discussion of divisional performance in the strategic report. This policy is kept under review by the Board and the Audit and Risk Committee, and is discussed in the committee's report on pages 80 to 89. Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit.

The items below are excluded from the adjusted results:

	Notes	Operating (loss)/profit 2020 £m	Operating (loss)/profit 2019 £m	(Loss)/profit before tax 2020 £m	(Loss)/profit before tax 2019 £m
Reported		**(32.0)**	0.4	**(49.4)**	(62.6)
Amortisation and impairment of acquired intangibles	3.3	**33.9**	49.9	**33.9**	49.9
Impairment of goodwill	3.4	**—**	41.4	**—**	41.4
Impairment of loans and investments		**0.4**	—	**0.4**	—
Litigation and claims		**0.7**	(0.7)	**0.7**	(0.8)
Net finance costs	4.3	**—**	—	**3.0**	6.3
Contingent consideration and acquisition cost movements		**—**	(1.4)	**—**	(1.4)
Business exit – trading	2.8	**(51.0)**	(46.6)	**(51.0)**	(46.6)
Business exit – non-trading expenses	2.8	**41.9**	52.1	**41.9**	52.1
Business exit – gain on business disposals	2.8	**—**	—	**(31.4)**	—
Business exit – on-hold disposal costs		**7.5**	—	**7.5**	—
Significant restructuring		**109.6**	159.4	**109.6**	159.4
Adjusted		**111.0**	254.5	**65.2**	197.7

1. Adjusted operating profit decreased by 56.4% (2019: 8.5%) and adjusted profit before tax decreased by 67.0% (2019: 2.2%). Adjusted operating profit of £111.0m (2019: £254.5m) was generated on adjusted revenue of £3,181.2m (2019: £3,501.0m) resulting in an adjusted operating profit margin of 3.5% (2019: 7.3%).
2. The tax credit on adjusted profit before tax is £13.6m (2019: charge of £29.0m) resulting in adjusted profit after tax of £78.8m (2019: £168.7m)
3. The adjusted operating profit and adjusted profit before tax at 31 December 2019 have been restated for the impact of business exits in 2020, and for the impact of IFRS 16. This has resulted in adjusted operating profit decreasing from £306.1m to £254.5m and adjusted profit before tax decreasing from £275.0m to £197.7m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £32.3m (2019: £50.3m) of which £nil relates to business exits (2019: £0.4m) and impairment of £1.6m (2019: £nil).

Impairment of goodwill: goodwill is subject to annual impairment testing and any impairment charges are reported separately. Refer to note 3.4 for further details.

Litigation and claims: In September 2020 the Group agreed a liability relating to past services received under supplier software licence agreements. In June 2020, the Group made a provision of £5.0m for the cash element of the settlement, and in September 2020 booked a provision of £0.1m for related professional fees. These are excluded from adjusted results because they relate to services received in prior periods and are not reflective of current year trading. Refer to note 6.2 for further details. This is partially offset by a gain of £4.4m (2019: gain of £0.7m) from net movements in historical provisions for litigation and claims which were excluded from adjusted profit when originally recognised due to their age and size.

Net finance costs: net finance costs excluded from adjusted profits includes movements in the mark-to-market valuation of certain financial instruments.

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on business disposals, are excluded from the Group's adjusted results. Refer to note 2.8 for further details.

Business exits - on-hold disposal cost: the costs incurred in respect of business exit activities where the anticipated disposal was primarily put on hold due to the impact of Covid-19 pandemic had on the underlying businesses, are excluded from the Group's adjusted results but disclosed separately from other business exits given their materiality. These costs include professional fees in respect of legal and financial due diligence, and separation planning costs.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2020 a charge of £109.6m (2019: £159.4m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise cost savings and efficiencies from the transformation plan £66m (2019: £80m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of the Group's operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and working smarter. These costs also include rationalisation and increased utilisation of the Group's property estate in metro centres and regionally. As the Group continues to rationalise its property estate, costs associated with onerous property commitments and dilapidation liabilities, and impairment of property right of use assets and fixtures and fittings, will be captured and presented as part of the transformation adjustments.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax

- **Professional fees £3m (2019: £26m):** incurred to support reigniting sales growth, increasing the proportion of centrally controlled spend, and refinancing costs which had to be aborted due to the impact Covid-19 had on the debt markets.
- **Transformation of central Group functions £15m (2019: £53m):** investment in programmes to improve the Group's central functions, including: finance; sales; human resources; and information technology. All costs associated with these programmes are recorded separately, and exclude any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.
- **Cost of accelerating savings to mitigate the financial impact of Covid-19 £26m (2019: £nil):** these are incremental to those planned to be incurred as part of the transformation plan and include accelerated property estate rationalisation and severance costs.

2.5 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the services provided by each segment can be found in the strategic report on pages 26 to 37.

The tables below present the trading results of the Group's business segments for the years 2020 and 2019. During 2020, there were a number of transfers between the segments due to changes in structure, and comparative information has been re-presented accordingly. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment.

Information on segmental revenue can be found in note 2.2.

Year ended 31 December 2020	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	**43.4**	**52.5**	**105.9**	**11.1**	**34.9**	**(4.4)**	**(132.4)**	**111.0**	**—**	**111.0**
Restructuring	2.4	**(1.5)**	**(8.5)**	**(6.2)**	**(3.2)**	**(9.2)**	**(3.4)**	**(77.6)**	**—**	**(109.6)**	**(109.6)**
Business exits – trading	2.8	**53.2**	**(1.8)**	**2.1**	**—**	**—**	**(2.5)**	**—**	**—**	**51.0**	**51.0**
Total trading result		**95.1**	**42.2**	**101.8**	**7.9**	**25.7**	**(10.3)**	**(210.0)**	**111.0**	**(58.6)**	**52.4**
Non-trading items:											
Business exits – non-trading	2.8								**—**	**(41.9)**	**(41.9)**
Other adjusting items	2.4								**—**	**(42.5)**	**(42.5)**
Operating profit/(loss)									**111.0**	**(143.0)**	**(32.0)**

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	50.7	68.9	119.8	51.8	58.0	44.3	(139.0)	254.5	—	254.5
Restructuring	2.4	(5.4)	(34.3)	(10.8)	(2.7)	(15.2)	(3.9)	(87.1)	—	(159.4)	(159.4)
Business exits – trading	2.8	57.0	(9.1)	3.6	—	—	(4.9)	—	—	46.6	46.6
Total trading result		102.3	25.5	112.6	49.1	42.8	35.5	(226.1)	254.5	(112.8)	141.7
Non-trading items:											
Business exits – non-trading	2.8								—	(52.1)	(52.1)
Other adjusting items	2.4								—	(89.2)	(89.2)
Operating profit/(loss)									254.5	(254.1)	0.4

Geographical location
The table below presents the carrying amount of non-current assets (excluding deferred tax and financial assets) by the geographical location of those assets.

	2020 United Kingdom £m	2020 Other £m	2020 Total £m	2019 United Kingdom £m	2019 Other £m	2019 Total £m
Non-current assets	**2,168.4**	**38.4**	**2,206.8**	2,457.3	55.9	2,513.2

Section 2: Results for the year continued

2.6 Taxation

AP Accounting policies

Tax on the profit or loss for year comprises current tax and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in the consolidated statement of changes in equity or the consolidated statement of comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill;
- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit/loss nor taxable profit/loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.6.1 Income tax charge on adjusted profit before tax

The income tax credit of £13.6m on adjusted profit before tax[1] resulted in an adjusted tax rate of (20.9)% (2019: income tax charge of £29.0m and adjusted tax rate 14.7%). This is different from the UK statutory rate of tax of 19% predominantly due to the UK corporation tax rate change impact on deferred tax, and a partial release of the unremitted earnings provision due to tax rate reduction on overseas dividend distributions.

2.6.2 Income tax charge

The income tax credit of £47.6m on reported loss before tax of £49.4m resulted in an effective tax rate of 96.4% (2019: income tax credit of £3.5m on loss of £62.6m and effective tax rate of 5.6%). This is different from the UK statutory rate of tax of 19% predominantly due to the above mentioned rate changes, release of uncertain tax positions, the non-taxable profit on disposal, together with non-deductible business exit costs detailed further in the tax reconciliation.

The major components of income tax charge/(credit) for the years ended 31 December are set out below:

Consolidated income statement	2020 £m	2019 £m
Current income tax		
Current income tax charge	**14.1**	10.5
Adjustment in respect of prior years	**0.2**	(2.1)
Deferred tax		
Origination and reversal of temporary differences	**(42.0)**	(3.5)
Adjustment in respect of prior years	**(19.9)**	(8.4)
	(47.6)	(3.5)

Consolidated statement of comprehensive income and consolidated statement of changes in equity	2020 £m	2019 £m
Income tax movement on cash flow hedges	**(1.1)**	(0.3)
Deferred tax movement in relation to actuarial losses on defined benefit pension schemes	**(10.9)**	(18.1)
Deferred tax movement in relation to share based payment	**1.2**	(0.8)
	(10.8)	(19.2)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2

Section 2: Results for the year continued

2.6 Taxation continued

The reconciliation between both the total tax and the current tax charge/(credit) and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December is as follows:

		Total tax		Current tax	
		2020 £m	2019 £m	2020 £m	2019 £m
Loss before tax		(49.4)	(62.6)	(49.4)	(62.6)
Notional credit at UK corporation tax rate of 19%	a	(9.4)	(11.9)	(9.4)	(11.9)
Adjustments in respect of current income tax of prior years	b	0.2	(2.1)	0.2	(2.1)
Adjustments in respect of deferred tax of prior years	c	(19.9)	(8.4)	—	—
Non-deductible expense/(non-taxable income) – adjusted	d	3.5	(0.3)	3.5	(0.3)
Non-deductible expenses – business exit	e	5.6	0.3	5.6	0.3
Non-deductible expense/(non-taxable income) – specific items	f	2.0	(0.3)	2.0	(0.3)
Profit on disposal	g	(6.4)	(0.1)	(6.4)	(0.1)
Difference in rate recognition of temporary differences	Note 2.6.3	(17.5)	—	—	—
Non-deductible goodwill impairment	h	0.6	14.6	0.6	14.6
Tax provided on unremitted earnings	i	(7.6)	2.6	1.9	—
Attributable to different tax rates in overseas jurisdictions	j	(0.7)	(0.7)	(0.1)	(0.7)
Movement in deferred tax unrecognised	k	2.0	2.3	2.0	2.3
Current year movement in uncertain tax positions		—	0.5	—	0.5
Accounting depreciation in excess of fixed asset tax deductions		—	—	12.4	15.9
Current tax impact on other timing differences	l	—	—	7.1	(9.2)
Utilisation of losses in current period	m	—	—	(5.1)	(0.7)
At the effective total tax rate of 96.4% (2019: 5.6%) and the effective current tax rate of (28.9)% (2019: (13.4)%)	a	(47.6)	(3.5)	14.3	8.3
Tax (credit)/charge reported in the income statement		(47.6)	(3.5)	14.3	8.3

a. The 2020 current tax charge of £14.3m (2019: £8.3m) results in an effective current tax rate of (28.9)%, which is different from the UK statutory rate of tax of 19% predominantly due to depreciation, amortisation and impairment of fixed assets exceeding the tax deductions on the same assets. The impact of differing overseas tax rates is minimal and covered in footnote j. below.
b. The £0.2m prior year charge adjustment includes: (i) £1.3m credit on release of some of the Group's previously uncertain tax positions which are no longer considered likely to arise, due to expiry of statute of limitation; and, (ii) a £1.5m charge with corresponding deferred tax prior year credits.
c. The £19.9m prior year credit adjustment includes: (i) a £1.5m credit with corresponding current income tax prior year charges; (ii) a £4.6m credit following the finalisation of submitted tax returns; and, (iii) a £13.8m credit relating to the release of uncertain tax positions due to resolution of tax enquiries.
d. Higher in 2020 mainly due to non-deductible depreciation, accounting losses on non-qualifying assets, and IFRS 2 charge in respect of share based payments.
e. Business exit: relates to non-deductible costs associated with the businesses detailed in note 2.8.
f. Specific items: relates to non-deductible restructuring costs associated with business exits, detailed in note 2.4.
g. Relates to the application of the UK tax exemption on substantial shareholdings to relevant disposals.
h. Relates to the intangible asset impairments as detailed further in notes 2.4, 2.8 and 3.4.
i. Movement on the deferred income tax liability recognised on the unremitted earnings of those subsidiaries affected by withholding taxes, due to: (i) 2020 charge of £0.9m; and, (ii) £8.5m reduction in the tax rate on overseas dividend distributions.
j. Relates to the difference between tax payable at higher rates in India and South Africa, and tax payable at lower rates in other trading jurisdictions (Poland, Isle of Man and UAE).
k. Relates to the derecognition of deferred tax on losses and other timing differences.
l. The current tax reconciliation item is predominantly the capital expense incurred on property rationalisation, detailed in note 2.4.
m. Relates to the (utilisation)/carry forward of tax losses, and the reactivation of deferred interest, in the current period.

2.6.3 Deferred tax

A change to the main UK corporation tax rate was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19.0%, instead of the previously enacted reduction to 17.0%. The UK deferred tax asset/(liability) at 31 December 2020 has been calculated based on this rate, resulting in a £17.5m tax credit to the income statement in 2020.

Deferred tax assets and liabilities at 31 December:

	2020 £m	2019 £m
Deferred tax asset[1]	242.8	181.6
Deferred tax liability[1]	(6.7)	(16.3)
Net deferred tax	236.1	165.3

1. Analysed after jurisdictional netting has been applied to offset balances within countries.

Section 2: Results for the year continued

2.6 Taxation continued

Deferred tax at 31 December relates to the following:

	At 1 January £m	Charged/(Credited) to Income statement £m	OCI and changes in equity £m	Other movements[2] £m	At 31 December £m
Deferred tax assets					
Property, plant and equipment	60.0	**13.1**	**—**	**(0.3)**	**72.8**
Deferred income	5.6	**(0.7)**	**—**	**(0.4)**	**4.5**
Provisions	10.4	**1.3**	**—**	**—**	**11.7**
Pension schemes' liability	38.9	**1.8**	**10.9**	**—**	**51.6**
Share based payments	2.7	**0.1**	**(1.2)**	**—**	**1.6**
Tax losses[1]	86.0	**25.4**	**—**	**(0.2)**	**111.2**
	203.6	**41.0**	**9.7**	**(0.9)**	**253.4**
Deferred tax liabilities					
Intangibles	(6.2)	**4.0**	**—**	**—**	**(2.2)**
Contract fulfilment assets	(16.8)	**7.3**	**—**	**0.1**	**(9.4)**
Unremitted earnings	(15.3)	**9.6**	**—**	**—**	**(5.7)**
	(38.3)	**20.9**	**—**	**0.1**	**(17.3)**
Net deferred tax	165.3	**61.9**	**9.7**	**(0.8)**	**236.1**

1. Mainly trading losses available to shelter future profits and deferred interest
2. Other movements includes transfers to disposal group assets/liabilities held-for-sale and business disposals

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The recoverability of deferred tax assets is supported by the deferred tax liabilities against which the reversal can be offset and the expected level of future profits in the countries concerned. The recognition for 2020 was based on the PBTs (excluding forecast restructuring costs) contained in the 2021-2023 business plans and 2024-2025 strategic plans, approved by the Board during February 2021. These are the same plans used to derive forecast cash flows for the goodwill impairment test (refer to note 3.4). The strategic plan cash flow forecasts for 2024-2025 have been further risk adjusted to reflect additional uncertainty in outer year forecasts. In accordance with the impairment test model, a long-term growth rate of 1.6% was applied to the years beyond the strategic plan (2026 and onwards) in the deferred tax asset recognition model.

These forecasts provide support that it is probable that there will be sufficient future taxable profits to enable the utilisation of the recognised deferred tax assets on losses within six to seven years. Other deferred tax assets, which have a longer unwind period by their nature (ie PPE and Pension schemes liabilities) are being recognised on the basis that they will unwind within periods when profitability will arise.

The Group has unrecognised tax losses of £208.6m (2019: £209.1m) and other temporary differences of £55.4m (2019: £45.5m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, but have not been recognised as their recoverability is uncertain. These are made up as follows:

(i) UK assets – £184.2m (2019: £185.3m) with no time expiry. The losses will be subject to enacted UK tax loss relief legislation which could result in restricted utilisation in the future. £77.2m of the losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.

(ii) Overseas assets – £79.9m (2019: £69.3m), some of which are subject to specific loss restriction rules but have no time expiry. £6.7m of the losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.

Dividends received from subsidiaries are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £62.6m (2019: £80.2m). A deferred income tax liability of £5.7m (2019: £15.3m) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes as the Group is able to control the timing of reversal and it is anticipating dividends to be distributed. The reduction in the Indian distribution tax rate has contributed to the reduction in the closing deferred income tax liability, along with earnings being remitted during the year.

Section 2: Results for the year continued

2.6 Taxation continued

2.6.4 Uncertain tax positions
The Group files income tax returns in several jurisdictions and some of these returns are open to, or subject to, tax authority audits or examinations. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations; and, the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years. Tax uncertainties are assessed throughout the year and specifically at the year-end, with any associated provisions recognised considering the specific circumstances of each risk, including the merits of technical aspects, previous experience with tax authorities, recent tax law and, if relevant, external specialist advice. The Group applies judgement in quantifying uncertainties over income tax treatments in accordance with these criteria.

Income tax receivable of £2.9m at 31 December 2020 includes £5.8m in relation to uncertain tax positions. The Group released £15.1m (2019: £7.2m) of uncertain tax positions in 2020 relating to tax risks which are no longer considered likely to arise, due to the expiry of statute of limitations and conclusion of enquiries. The release is split within the current income tax prior year adjustment (£1.3m) and deferred tax prior year adjustment (£13.8m). Expiry of statute of limitations, or conclusion of tax audits could result in a further release of the provision in the next financial year. While it is difficult to predict the ultimate outcome in some cases, and there are a range of different outcomes, currently it is not anticipated that there will be a material impact on the Group's financial position or results of operations in the next financial year.

2.6.5 Capita's responsible approach to taxation
Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC and has been awarded the Fair Tax Mark for its 2018 and 2019 tax disclosures. The Group has operations in a number of countries outside the UK. All Capita operations outside the UK are trading operations and pay the appropriate local taxes on these activities. Further detail, regarding Capita's approach to tax can be found on the Policies & Principles area of the Capita website (https://www.capita.com/our-company/about-capita/policies-and-principles).

Capita contributed £181.1m (2019: £183.1m) in taxes from its UK operations in the year. This consisted of a net repayment of £2.6m (2019: £7.9m) of UK corporation tax; £19.3m (2019: £17.9m) in irrecoverable VAT payments; £128.0m (2019: £136.9m) in employer national insurance contributions; and £31.2m (2019: £36.2m) in other levies including business rates, import duties, the apprenticeship levy and environmental taxes. Additionally, the Group collected: £336.2m (2019: £319.3m) of VAT, of which £217.4m was remitted to the UK Government in 2020, and £118.8m will be remitted in 2021/22 as part of the Government's VAT payment deferral measures; and £288.0m (2019: £317.0m) of Capita employee PAYE and NIC. Capita entities in overseas jurisdictions paid £4.9m (2019: £8.6m) of tax on local profits and dividend repatriations.

2.6.6 Post Balance Sheet Event – Budget 2021
On 3 March 2021, it was announced in the Budget that the UK tax rate will increase from 19% to 25% from 1 April 2023 onwards. This will increase the company's future income tax charge from 2023, and, result in an increase in deferred tax assets and a material one-off deferred tax credit in the period that the change is substantively enacted. If this rate change had theoretically been applied to the deferred tax balances at 31 December 2020, the deferred tax assets would increase by approximately £75m.

Section 2: Results for the year continued

2.7 Earnings/(loss) per share

AP Accounting policies

Basic earnings/(loss) per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

		2020		2019	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– adjusted	**4.19**	**4.19**	9.30	9.30
	– reported	**(0.41)**	**0.85**	(4.18)	(3.89)
Diluted earnings/(loss) per share	– adjusted	**4.19**	**4.19**	9.30	9.30
	– reported	**(0.41)**	**0.85**	(4.18)	(3.89)

The following tables show the earnings and share data used in the basic and diluted earnings/(loss) per share calculations:

		2020		2019	
		Continuing operations £m	**Total operations £m**	Continuing operations £m	Total operations £m
Adjusted profit before tax for the period	2.4	**65.2**	**65.2**	197.7	197.7
Income tax credit/(charge)	2.6.1	**13.6**	**13.6**	(29.0)	(29.0)
Adjusted profit for the period		**78.8**	**78.8**	168.7	168.7
Less: Non-controlling interest		**(9.4)**	**(9.4)**	(14.7)	(14.7)
Adjusted profit attributable to shareholders		**69.4**	**69.4**	154.0	154.0
Reported loss before tax for the period		**(49.4)**	**(28.6)**	(62.6)	(57.6)
Income tax credit	2.6	**47.6**	**47.6**	3.5	3.5
Reported loss for the period		**(1.8)**	**19.0**	(59.1)	(54.1)
Less: Non-controlling interest		**(5.0)**	**(5.0)**	(10.1)	(10.1)
Total loss attributable to shareholders		**(6.8)**	**14.0**	(69.2)	(64.2)

	2020 m	2019 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,656.1**	1,656.1
Dilutive potential ordinary shares:		
Employee share options	**—**	—
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,656.1**	1,656.1

At 31 December 2020 27,447,210 (2019: 25,313,414) options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33 *Earnings per Share*, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

The earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the Parent Company, and therefore excludes non-controlling interest. The earnings per share is calculated on an adjusted and total reported basis. The earnings per share for business exits and specific items are bridging items to adjusted and total reported earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date on which these consolidated financial statements were authorized for issue.

Section 2: Results for the year continued

2.8 Business exits and assets held-for-sale

AP Accounting policies

Business exits
Business exits are businesses that have been disposed of, or exited during the year; or, are in the process of being disposed of, or exited. None of these business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires comparative financial information to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment.

However, the trading result of these businesses exits, non-trading expenses, and any gain/loss on disposal, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude the 2020 business exits.

Assets held-for-sale
The Group classifies a non-current asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than continued use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

2020 business exits
Business exits during the year ended 31 December 2020 comprised:

- the Eclipse Legal Services business whose disposal was completed on 30 June 2020;
- the Capita Workplace Technology business whose disposal was competed on 1 August 2020;
- the Employee Benefits business whose disposal was completed on 30 November 2020;
- two businesses in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at the reporting date. The sale of both businesses completed subsequently; and
- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

Further disposals are planned as part of the simplification agenda. Since these disposals did not met the definition of business exits or assets held-for-sale at 31 December 2020, their trading results were included within adjusted results.

		Non-trading disposal			2020		Non-trading disposal			2019
Income statement impact	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	143.6	—	—	—	143.6	177.6	—	—	—	177.6
Cost of sales	(67.6)	—	—	—	(67.6)	(80.8)	—	—	—	(80.8)
Gross profit	76.0	—	—	—	76.0	96.8	—	—	—	96.8
Administrative expenses	(25.0)	(17.2)	(24.7)	(41.9)	(66.9)	(50.2)	—	(52.1)	(52.1)	(102.3)
Operating profit/(loss)	51.0	(17.2)	(24.7)	(41.9)	9.1	46.6	—	(52.1)	(52.1)	(5.5)
Gain on business disposal	—	48.1	(16.7)	31.4	31.4	—	—	—	—	—
Profit/(loss) before tax	51.0	30.9	(41.4)	(10.5)	40.5	46.6	—	(52.1)	(52.1)	(5.5)
Taxation	(9.6)	2.2	13.8	16.0	6.4	(8.8)	3.0	—	3.0	(5.8)
Profit/(loss) after tax	41.4	33.1	(27.6)	5.5	46.9	37.8	3.0	(52.1)	(49.1)	(11.3)

Trading revenue and costs represent the current year trading performance of those businesses up to the point of being disposed or exited. Trading expenses primarily comprise of payroll costs of £60.3m (2019: £73.9m) and IT costs of £26.3m (2019: £37.8m).

Non-trading administrative expenses primarily comprise closure costs of £17.2m (2019: £nil), goodwill impairment of £2.8m (2019: £35.3m), accruals of £8.8m (2019: £nil), held-for-sale asset impairments £8.9m including £0.8m of contract fulfilment assets and £3.2m of property plant and equipment, other asset impairments of £6.3m (2019: £14.7m) which is partially offset by releases of provisions of £2.1m (2019: £2.8m).

Section 2: Results for the year continued

2.8 Business exits and assets held for sale continued

2020 disposals
During the year, the Group disposed of three businesses: Eclipse Legal Services; the Capita Workplace Technology business; and, the Employee Benefits business.

In 2020 the gain arising on the disposal of these businesses of £31.4m comprised the disposal of net assets of £17.3m for £58.1m consideration and disposal costs of £9.4m. The net cash proceeds of £54.9m comprised the cash purchase consideration of £58.1m less £3.2m of cash disposed of.

			2020
Gain on business disposals	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	—	0.6	0.6
Intangible assets	—	3.2	3.2
Goodwill	—	12.1	12.1
Trade and other receivables	—	2.3	2.3
Disposal group assets held-for-sale	—	4.3	4.3
Trade and other payables	—	(6.5)	(6.5)
Deferred income	—	(0.4)	(0.4)
Disposal group liabilities held-for-sale	—	(1.2)	(1.2)
Income tax payable	—	(0.3)	(0.3)
Cash disposed of	3.2	—	3.2
Total net assets disposed of	3.2	14.1	17.3
Cash purchase consideration received	58.1		58.1
Costs of disposal – paid and accrued	(6.8)	(2.6)	(9.4)
Proceeds, less costs, on disposal	51.3	(2.6)	48.7
Gain on business disposals	48.1	(16.7)	31.4

Disposal group assets and liabilities held-for-sale

	2020 £m	2019 £m
Property, plant and equipment	**0.1**	0.2
Intangibles	**44.4**	0.1
Goodwill	**45.3**	2.8
Right-of-use assets	**4.5**	—
Income tax receivable and deferred tax asset	**0.1**	1.1
Contract fulfilment assets	**3.1**	—
Trade and other receivables	**2.9**	3.3
Accrued income	**0.6**	4.8
Prepayments	**0.7**	0.1
Cash and cash equivalents	**12.9**	—
Disposal group assets held-for-sale	**114.6**	12.4
Trade and other payables	**1.5**	0.9
Accruals	**3.5**	1.0
Lease liabilities	**4.6**	—
Other taxes and social security	**0.1**	0.1
Deferred income	**40.3**	1.0
Income tax payable and deferred tax liability	**3.5**	1.4
Provisions	**0.4**	—
Overdraft	**—**	3.5
Disposal group liabilities held-for-sale	**53.9**	7.9

Business exit cash flows

Businesses exited and being exited generated net operating cash inflows of £56.2m (2019: cash inflows of £39.7m).

Post balance sheet disposal
The disposal of the Education Software Solutions business completed on 1 February 2021. Refer to note 6.3 for further details.

Section 2: Results for the year continued

2.9 Discontinued operations

Capita completed the disposal of its Asset Services businesses, including Capita Financial Managers Limited (CFM), to the Link Group on 3 November 2017. The disposal met the definition of a discontinued operation as stipulated by IFRS 5.

The credit of £20.8m (2019: £5.0m) relates to additional payments received in connection with the sale of the Asset Services businesses arising from the return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund (2019: £3.1m).

Cash flows generated from discontinuing operations of £18.6m (2019: £4.7m) relate to the above return of redress payments made to the FCA less previously accrued amounts paid in connection with the sale of the Asset Services business.

The earnings per share impact from discontinued operations is 1.26p (2019: 0.29p) on basic earnings per share and 1.26p (2019: 0.29p) on diluted earnings per share.

Section 2: Results for the year continued

2.10 Cash flow information

AP **Accounting policies**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. In the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits net of outstanding bank overdrafts and include cash and overdrafts within assets and liabilities held for sale. Cash at bank earns interest at fixed and floating rates based on prevailing bank deposit rates.

2.10.1 Additional cash flow information

Cash flow from operating activities declined year-on-year as a consequence of lost revenue, margin on new business and investment off-set by cost out and one-off benefits. Working capital outflow driven by contract terminations and renegotiations, partially offset by additional payments on account and reduced spend on contract transformations.

		2020		2019	
	Note	Adjusted £m	Reported £m	Adjusted[1] £m	Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	2.4	**111.0**	**(32.0)**	254.5	0.4
Adjustments for non-cash items:					
Depreciation	3.2, 3.5	**137.5**	**139.1**	154.9	159.5
Amortisation of intangible assets	3.3	**41.0**	**74.6**	30.0	81.4
Share based payment expense	5.1	**6.4**	**6.4**	3.0	3.0
Employee benefits	5.2	**13.1**	**13.1**	11.2	11.2
Loss on sale of property, plant and equipment / intangible assets	2.3	**2.4**	**17.1**	1.8	1.8
Contingent consideration	2.4	**—**	**—**	—	(1.4)
Impairment of disposal group assets		**—**	**11.7**	—	—
Impairment of non-current assets		**3.5**	**32.2**	0.9	106.1
Other adjustments:					
Movement in provisions		**31.5**	**44.0**	(3.3)	(19.0)
Pension deficit contribution		**—**	**(29.5)**	—	(71.1)
Other contributions into pension schemes		**(19.5)**	**(19.5)**	(17.0)	(17.0)
Movements in working capital:					
Trade and other receivables		**162.9**	**172.7**	(7.1)	2.4
Non-recourse trade receivables financing		**—**	**13.6**	—	—
Trade and other payables		**(62.0)**	**(58.4)**	(8.6)	(14.8)
VAT deferral		**—**	**118.8**	—	—
Deferred income		**(36.7)**	**(46.8)**	(190.5)	(198.1)
Contract fulfilment assets (non-current)		**(23.6)**	**(22.9)**	(16.2)	(11.6)
Cash generated by operations		**367.5**	**434.2**	213.6	32.8
Adjustments for free cash flows:					
Income tax paid		**(8.8)**	**(8.8)**	(5.4)	(5.4)
Net interest paid		**(47.7)**	**(47.7)**	(58.5)	(58.4)
Purchase of property, plant and equipment	3.2	**(40.2)**	**(40.8)**	(48.7)	(57.7)
Purchase of intangible assets	3.3	**(42.7)**	**(46.6)**	(124.6)	(124.7)
Proceeds from sale of property, plant and equipment / intangible assets		**10.5**	**13.5**	0.4	0.4
Free cash flow		**238.6**	**303.8**	(23.2)	(213.0)

1. The 2019 adjusted cash flow has been restated for business exits in 2020 and also for the inclusion of IFRS 16. This has resulted in adjusted cash generated by operations increasing from £158.6m to £213.6m and adjusted free cash outflow decreasing from £(61.3)m to £(23.2)m.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.2 Adjusted free cash flow and cash generated from operations

	Free cash flow		Cash generated/(used) by operations	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Reported	**303.8**	(213.0)	**434.2**	32.8
Pension deficit contributions	**29.5**	71.1	**29.5**	71.1
Significant restructuring	**64.1**	148.5	**67.1**	148.5
Business exits	**(33.9)**	(32.5)	**(38.4)**	(41.5)
Business exits - on hold disposal costs	**7.5**	—	**7.5**	—
Non-recourse trade receivables financing	**(13.6)**	—	**(13.6)**	—
VAT deferral	**(118.8)**	—	**(118.8)**	—
Other	**—**	2.7	**—**	2.7
Adjusted	**238.6**	(23.2)	**367.5**	213.6

A reconciliation of net cash flow to movement in net debt is included in note 2.10.3.

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176.0m, of which £29.5m was paid in 2020 (2019: £71.1m). These payments have been excluded from adjusted cash flows since the Group treats them as a debt like item.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2020, a cash outflow of £64.1m (2019: £148.5m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 2019 results have been restated for those businesses exited, or in the process of being exited during 2020 to enable comparability of the adjusted results.

Business exits - on hold disposal costs: these are costs incurred in respect of business exit activities where the anticipated disposal was put on hold due to the impact that the Covid-19 pandemic had on the underlying businesses. They are excluded from the Group's adjusted results but disclosed separately given their materiality.

Non-recourse trade receivables financing: a non-recourse receivables financing facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic.

VAT deferral: utilisation of the Government's VAT deferral scheme. Refer to note 2.6.5 for further details.

Other: includes the cash flows related to other items excluded from adjusted profit.

2.10.3 Reconciliation of net cash flow to movement in net debt

Year ended 31 December 2020	Note	**Net debt at 1 January £m**	**Cash flow movements £m**	**Non-cash movement[2] £m**	**Net debt at 31 December £m**
Cash, cash equivalents and overdrafts	4.5.4	**122.8**	**27.2**	**(8.9)**	**141.1**
Other loan notes	4.5	**(0.3)**	**—**	**(2.0)**	**(2.3)**
Private placement loan notes[1]	4.5	**(990.7)**	**243.4**	**(17.8)**	**(765.1)**
Cross-currency interest rate swaps[1]	4.5	**77.3**	**(24.5)**	**4.7**	**57.5**
Interest rate swaps[1]	4.5	**1.0**	**—**	**(0.5)**	**0.5**
Lease liabilities	4.4	**(562.6)**	**98.0**	**(43.5)**	**(508.1)**
Total net liabilities from financing activities		**(1,475.3)**	**316.9**	**(59.1)**	**(1,217.5)**
Deferred consideration	4.5	**(0.7)**	**—**	**—**	**(0.7)**
Net debt	4.1.1	**(1,353.2)**	**344.1**	**(68.0)**	**(1,077.1)**

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £707.1m (2019: £912.4m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £242.9m and finance arrangement costs of £0.5m.
2. Non-cash movement relates to: the effect of changes in foreign exchange on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the euro debt; and additions and terminations and foreign exchange rate effects on the Group's leases.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.3 Reconciliation of net cash flow to movement in net debt continued

Year ended 31 December 2019	Note	Net debt at 1 January £m	Lease liability adjustment[1] £m	Cash flow movements £m	Non-cash movement £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	642.7	—	(523.2)	3.3	122.8
Other loan notes	4.5	(0.3)	—	—	—	(0.3)
Private placement loan notes	4.5	(1,108.0)	—	97.9	19.4	(990.7)
Cross-currency interest rate swaps	4.5	99.6	—	(10.9)	(11.4)	77.3
Interest rate swaps	4.5	1.9	—	—	(0.9)	1.0
Term loan	4.5	(100.0)	—	100.0	—	—
Lease liabilities[1]	4.4	—	(643.9)	93.7	(12.4)	(562.6)
Total net liabilities from financing activities		(1,106.8)	(643.9)	280.7	(5.3)	(1,475.3)
Deferred consideration	4.5	(2.0)	—	1.3	—	(0.7)
Net debt	4.1.1	(466.1)	(643.9)	(241.2)	(2.0)	(1,353.2)

1. The Group first adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

Section 3: Operating assets and liabilities

This section shows the operating assets and liabilities used to generate the Group's trading performance. Liabilities relating to the Group's financing activities are contained in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.6. Deferred income is shown in note 2.1.

In this section you will find disclosures about:

3.1 Working capital
3.1.1 Trade and other receivables
3.1.2 Trade and other payables
3.1.3 Contract fulfilment assets
3.2 Property, plant and equipment
3.3 Intangible assets
3.4 Goodwill
3.5 Right-of-use assets
3.6 Provisions

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Return on capital employed (ROCE) [1]
Aim: Deliver ROCE in excess of our cost of capital

3.8%

(2019: 7.8%)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

	Note	2020 £m	2019 £m	Year on year movement £m
Working capital	3.1	**(765.9)**	(636.2)	(129.7)
Trade and other receivables – current	3.1.1	**551.0**	748.4	(197.4)
Trade and other receivables – non-current	3.1.1	**22.1**	26.4	(4.3)
Trade and other payables – current	3.1.2	**(635.0)**	(619.8)	(15.2)
Trade and other payables – non-current	3.1.2	**(23.6)**	(6.0)	(17.6)
Deferred income – current	2.1	**(822.2)**	(884.5)	62.3
Deferred income – non-current	2.1	**(153.0)**	(176.5)	23.5
Contract fulfilment assets	3.1.3	**294.8**	275.8	19.0
Property, plant and equipment	3.2	**157.2**	194.3	(37.1)
Intangibles	3.3	**265.0**	354.2	(89.2)
Goodwill	3.4	**1,120.5**	1,177.8	(57.3)
Right-of-use-assets	3.5	**342.1**	480.9	(138.8)
Provisions – current	3.6	**(107.0)**	(71.3)	(35.7)
Provisions – non-current	3.6	**(17.4)**	(9.3)	(8.1)

The decrease in trade and other receivables was as a result of the lower in business volumes and shorter public sector payment cycles as part of the Covid-19 response reducing trade receivables (£142.3m), a decrease in accrued income (£24.2m) from lower operational activity and prepayments (£24.3m) particularly within Government Services.

During the year a non-recourse receivables facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic. The outstanding invoices sold under this facility at 31 December 2020 was £13.6m.

The increase in trade and other payables was as a result of an increase in other taxes and social security (£117.2m) from the 2020 VAT deferral which was offset by a decrease in accruals (£20.8m). The impact of lower operational activity in 2020 and some early payments reduced trade payables (£69.8m).

The decrease in deferred income was as a result of the normal reduction in deferred income balances as well as one-off releases on contract terminations and modifications in 2020, partially off-set by increases from advanced receipts and higher activity levels on contracts such as DFRP, where cash has been received in 2020 in respect of transformation activity.

Section 3: Operating assets and liabilities continued

Contract fulfilment assets increased as a result of additions of £127.4m predominantly in Government Services (£85.2m) on contracts including DFRP and Transport for London - Congestion Charge, Software (£22.8m) and Technology Solutions (£17.3m). This was offset by a utilisation of £78.0m mainly within Software (£26.9m), Government Services (£7.3m) and Technology Solutions (£10.2m), as well as an impairment of £17.5m across a number of contracts.

Property, plant and equipment decreased as additions of £40.8m including a property purchase at the start of the year and various investments across each division were offset by a £10.3m impairment of assets, disposals of £19.3m of leasehold improvements and other plant and machinery from property rationalisation and depreciation of £50.9m.

Intangible assets decreased due to amortisation of £74.6m and the impact of £44.4m of assets transferred to assets held for sale in respect of businesses being exited, with ESS being the largest contributor. Additionally, there were £9.7m asset disposals including an asset sale under an in-year contract extension and impairments of £2.6m which were offset by £46.6m of additions relating primarily to investment in our Customer Relationship Management (CRM) tool and payment facilitator tool, and other investments across each division to drive future growth.

Goodwill decreased as a result of transfers to assets held for sale in 2020 comprising £45.3m for ESS and £12.1m for other business disposals completed in 2020, being Eclipse Legal Services and Capita Employee Benefits.

The increase in provisions of £43.8m during the year was predominantly due to new provisions totalling £98.4m with the largest increases being increased restructuring provisions (£31.1m), legal provisions (£13.1m), additional customer contract provisions (£36.8m) and business exit provisions (£11.6m). This was offset by releases and utilisations totalling £54.3m.

3.1 Working capital

3.1.1 Trade and other receivables

AP Accounting policies

Trade receivables: Trade receivables are initially recognised at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent their recoverable amount.

Impairment: For trade receivables, the Group applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Derecognition: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (ie removed from the Group's consolidated balance sheet) when (i) the rights to receive the cash flows from the asset have expired; or, (ii) the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risk and rewards of the asset; or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are sold without recourse are derecognised at the point of sale when the risks and rewards of the receivables have been fully transferred.

Accrued income: Accrued income in relation to contract assets is recognised when payments received from customers are less than the revenue recognised by the reporting date.

	Current		Non-current	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Trade receivables	**250.5**	392.8	**—**	—
Other receivables[1]	**40.9**	48.4	**5.7**	4.3
Current contract fulfilment assets[2]	**9.0**	13.8	**—**	—
Accrued income	**164.6**	191.2	**2.9**	0.5
Prepayments	**86.0**	102.2	**13.5**	21.6
	551.0	748.4	**22.1**	26.4

1. Other receivables includes £4.1m (2019 £nil) of accrued interest on cross-currency interest rate swaps.
2. Refer to note 3.1.3 for non-current contract fulfilment assets.

Trade receivables are non-interest bearing and are generally on 30-day terms.

The Group's accrued income balances solely relate to revenue from contracts with customers. Movements in the accrued income balances were driven by transactions entered into by the Group in the normal course of business during the year.

Movements in the loss allowance made against receivables were as follows:

	2020 £m	2019 £m
At 1 January	**4.9**	11.2
Utilised	**(0.3)**	(0.3)
Provided in the year	**11.7**	3.2
Released in the year	**(4.4)**	(9.2)
Business disposal	**(0.6)**	—
At 31 December	**11.3**	4.9

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

Non-recourse trade receivables facilities
The value of the outstanding invoices sold under non-recourse trade receivable facilities was £22.2m at 31 December 2020 (2019: £nil). The costs of selling such invoices £0.3m was included in net finance costs in the consolidated income statement.

Section 3: Operating assets and liabilities continued

3.1 Working capital continued

3.1.2 Trade and other payables

	Current		Non-current	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Trade payables	**131.1**	200.9	**—**	—
Other payables	**22.8**	21.5	**7.9**	3.0
Other taxes and social security	**221.5**	115.2	**10.9**	—
Accruals	**259.6**	282.2	**4.8**	3.0
	635.0	619.8	**23.6**	6.0

Trade payables are non-interest bearing and are settled on terms agreed with the suppliers.

3.1.3 Contract fulfilment assets

AP **Accounting policies**

The Group regularly incurs costs to deliver its outsourcing services in a more efficient way (often referred to as ‘transformation’ costs). These costs may include process mapping and design, system development, project management, hardware (generally in scope of the Group’s accounting policy for property, plant and equipment), software licence costs (generally in scope of the Group’s accounting policy for intangible assets), recruitment costs and training.

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Group applies the following criteria which, if met, result in capitalisation of costs that: (i) directly relate to a contract or to a specifically identifiable anticipated contract; (ii) generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) are expected to be recovered.

The Group has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management; are likely to qualify to be capitalised as contract fulfilment assets.

The incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the Group expects to recover them. The Group incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

The Group has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract after the Group has been selected as preferred supplier; and (ii) sales commissions directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but expensed as incurred.

Utilisation: The utilisation charge is included within cost of sales. The Group utilises contract fulfilment assets over the expected contract period on a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer.

Derecognition: A contract fulfilment asset is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

Impairment: At each reporting date, the Group determines whether or not the contract fulfilment assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

J **Significant accounting judgements, estimates and assumptions**

Judgement is applied by the Group when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. For example, the Group considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised. See note 2.1 for further information.

Section 3: Operating assets and liabilities continued

3.1 Working capital continued

3.1.3 Contract fulfilment assets continued

Movements in non-current contract fulfilment assets were as follows[1]:

	2020 £m	2019 £m
At 1 January	**275.8**	264.2
Additions	**127.4**	114.3
Transfer to assets held-for-sale	**(3.9)**	—
Impairment - excluded from adjusted profit	**(17.5)**	(9.6)
Derecognition	**(9.5)**	(2.0)
Utilised during the year	**(78.0)**	(90.7)
Exchange movement	**0.5**	(0.4)
At 31 December	**294.8**	275.8

1. Refer to note 3.1.1 for current contract fulfilment assets.

Impairment: In 2020, the Group recognised an impairment of £17.5m (2019: £9.6m) in adjusted cost of sales, of which, £2.0m (2019: £2.2m) relates to contract fulfilment assets added during the year.

Derecognition: In 2020, £9.5m (2019: £2.0m) was derecognised in relation to business exits and a contract in Customer Management where the scope of our services changed due to the partial termination of the contract and the Group had no further use for the assets. In the prior year, derecognition related to business exits.

3.2 Property, plant and equipment

AP Accounting policies

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation: Depreciation is disclosed as an administrative expense in the consolidated income statement, and is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

- Freehold buildings and long leasehold property – up to 50 years.
- Leasehold improvements – period of the lease.
- Plant and machinery – 3 to 10 years.

Impairment: The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are disclosed as administrative expenses in the consolidated income statement.

Derecognition: An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

Section 3: Operating assets and liabilities continued

3.2 Property, plant and equipment

	2020			2019		
	Leasehold improvement, land and buildings £m	Plant and machinery £m	Total £m	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost						
At 1 January	**118.1**	**206.6**	**324.7**	103.0	175.7	278.7
Additions	**21.0**	**19.8**	**40.8**	18.0	39.7	57.7
Disposal of business	**(0.7)**	**(0.1)**	**(0.8)**	—	—	—
Disposals – included in adjusted profit	**(5.3)**	**(14.8)**	**(20.1)**	(2.4)	(4.6)	(7.0)
Disposals – excluded from adjusted profit	**(19.9)**	**(14.4)**	**(34.3)**	—	—	—
Transfer to assets held-for-sale	**(1.0)**	**(11.8)**	**(12.8)**	(0.2)	—	(0.2)
Reclassifications	**(1.1)**	**7.8**	**6.7**	—	—	—
Asset retirements	**(6.8)**	**(1.4)**	**(8.2)**	—	—	—
Exchange movement	**(1.0)**	**1.5**	**0.5**	(0.3)	(4.2)	(4.5)
At 31 December	**103.3**	**193.2**	**296.5**	118.1	206.6	324.7
Depreciation and impairment						
At 1 January	**47.3**	**83.1**	**130.4**	41.8	23.3	65.1
Depreciation charged during the year	**9.0**	**41.9**	**50.9**	9.6	50.7	60.3
Disposal of business	**(0.2)**	**(0.1)**	**(0.3)**	—	—	—
Disposals – included in adjusted profit	**(4.6)**	**(12.3)**	**(16.9)**	(2.2)	(3.8)	(6.0)
Disposals – excluded from adjusted profit	**(3.9)**	**(14.3)**	**(18.2)**	—	—	—
Impairment – included in adjusted profit	**1.2**	**2.2**	**3.4**	—	—	—
Impairment – excluded from adjusted profit	**—**	**6.9**	**6.9**	—	14.7	14.7
Transfer to assets held-for-sale	**(0.7)**	**(8.8)**	**(9.5)**	—	—	—
Asset retirements	**(6.8)**	**(1.4)**	**(8.2)**	—	—	—
Exchange movement	**0.3**	**0.5**	**0.8**	(1.9)	(1.8)	(3.7)
At 31 December	**41.6**	**97.7**	**139.3**	47.3	83.1	130.4
Net book value						
At 1 January	**70.8**	**123.5**	**194.3**	61.2	152.4	213.6
At 31 December	**61.7**	**95.5**	**157.2**	70.8	123.5	194.3

At 31 December 2020, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £5.3m (2019: £6.7m), relating to building improvements on leased property.

In January 2020, the Group acquired a property from the lessor for £3.0m which was subsequently sold and leased back in October 2020. Refer note 3.5 for details.

During the year, the Group exited a number of properties and their related leasehold improvement assets were disposed of for £nil consideration. Since these exits were part of the Group wide transformation, the related charge was excluded from adjusted profit.

3.3 Intangible assets

AP **Accounting policies**

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the consolidated income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2020 or 2019.

Amortisation: Amortisation is charged on assets with finite lives and is disclosed as an administrative expense in the consolidated income statement. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The amortisation method used reflects the expected pattern of consumption of future economic benefits and generally amortised on a straight-line basis, the amortisation periods used are as follows:

- Intangible assets acquired in business combinations – 1.5 to 20 years.
- Intangible assets purchased or internally capitalised – 3 to 20 years.

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

Impairment: Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment.

Derecognition: Intangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

The measurement of intangible assets other than goodwill in a business combination: on the acquisition of a business, the identifiable intangible assets may include licences, customer lists and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset because in most cases no active market for the assets exists and therefore no observable value exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets. The potential impact of Covid-19 which has introduced unprecedented economic uncertainties has been considered, and given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of intangible assets. The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives material to the Group's financial position and performance.

The assessment of costs capitalised as intangible assets to generate future economic benefits: judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits. Significant judgements and estimates are applied in determining the carrying value of the assets, including assumptions made in respect of the status of the programme each asset relates to, and there may be a range of possible outcomes when a programme is complex.

	2020			2019		
	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m
Cost						
At 1 January	371.0	363.0	734.0	552.5	254.0	806.5
Business disposal	—	(3.5)	(3.5)	—	—	—
Additions	—	46.6	46.6	—	124.7	124.7
Disposals – included in adjusted profit	—	(31.6)	(31.6)	—	(2.7)	(2.7)
Disposals – excluded from adjusted profit	—	(2.0)	(2.0)	—	—	—
Transfer to assets held-for-sale	—	(46.0)	(46.0)	—	(0.1)	(0.1)
Asset retirement	(202.9)	(13.9)	(216.8)	(179.2)	(12.2)	(191.4)
Exchange movement	6.2	1.6	7.8	(2.3)	(0.7)	(3.0)
At 31 December	174.3	314.2	488.5	371.0	363.0	734.0
Amortisation and impairment						
At 1 January	296.9	82.9	379.8	425.8	52.0	477.8
Amortisation charged during the year	32.3	42.3	74.6	50.3	31.1	81.4
Impairment – included in adjusted profit	—	0.1	0.1	—	—	—
Impairment – excluded from adjusted profit	1.6	0.9	2.5	—	13.8	13.8
Business disposal	—	(0.3)	(0.3)	—	—	—
Disposals – included in adjusted profit	—	(21.9)	(21.9)	—	(1.5)	(1.5)
Disposals – excluded from adjusted profit	—	(0.4)	(0.4)	—	—	—
Transfer to assets held-for-sale	—	(1.6)	(1.6)	—	—	—
Asset retirement	(202.9)	(13.9)	(216.8)	(179.2)	(12.2)	(191.4)
Exchange movement	7.5	—	7.5	—	(0.3)	(0.3)
At 31 December	135.4	88.1	223.5	296.9	82.9	379.8
Net book value						
At 1 January	74.1	280.1	354.2	126.7	202.0	328.7
At 31 December	38.9	226.1	265.0	74.1	280.1	354.2

Intangible assets acquired in business combinations include brands (net book value 2020: £2.6m, 2019: £8.8m), Intellectual Property software and licences (net book value 2020: £20.9m, 2019: £28.7m), contracts and committed sales (net book value 2020: £7.7m, 2019: £15.9m) and clients lists and relationships (net book value 2020: £7.7m, 2019: £20.7m). Intangible assets capitalised or purchased include capitalised software development (net book value 2020: £184.0m, 2019: £237.0m) and other intangibles (net book value 2020: £42.1m, 2019: £43.1m).

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

The aim of the finance transformation is to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data. The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work is required on the core processes and procedures before the system can be effectively implemented. As such, we impaired £12.3m at 31 December 2019, representing areas that we expected to redesign before going live. Several interim activities were progressed during 2020 and the technical asset including the IT infrastructure, software and codebase have been preserved through 2020 and remain ready to deploy. No impairment has been recorded during 2020 because it is believed that the solution is fit for purpose. The carrying value of the investment at 31 December 2020 is £58.6m (31 December 2019: £58.6m). Further impairment may arise should there be a material change to the Group's operating model. The Group has continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

3.4 Goodwill

AP **Accounting policies**

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set-off directly against reserves and does not get recycled through the consolidated income statement.

At the acquisition date, any goodwill acquired is allocated to the cash-generating units (CGU) which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent company.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

J **Significant accounting judgements, estimates and assumptions**

Measurement and impairment of goodwill: the amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised. The Group determines whether goodwill is impaired on an annual basis or more frequently if required and this requires an estimation of the recoverable amount of the CGUs to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate. The potential impact of Covid-19 which has introduced unprecedented economic uncertainties has been considered and given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of goodwill.

	2020 £m	2019 £m
Cost		
At 1 January	**2,016.1**	2,020.6
Business disposal	**(52.4)**	—
Transfer to disposal group assets held-for-sale	**(45.3)**	(2.8)
Exchange movement	**0.1**	(1.7)
At 31 December	**1,918.5**	2,016.1
Accumulated impairment		
At 1 January	**838.3**	761.6
Business disposal	**(40.3)**	—
Impairment – excluded from adjusted profit	**—**	41.4
Impairment – business exit	**—**	35.3
At 31 December	**798.0**	838.3
Net book value		
At 1 January	**1,177.8**	1,259.0
At 31 December	**1,120.5**	1,177.8

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Cash-generating units

Cash generating units reflect the way management exercises oversight and monitors the Group's performance. The lowest level at which goodwill is monitored is at the divisional level for five divisions (Software, People Solutions, Technology Solutions, Consulting, and Specialist Services (see below)), and at a sub-divisional level for the other two divisions (Government Services and Customer Management (see below)). Goodwill is allocated to these CGUs or groups of CGUs. At 31 December 2020, the Group has nine CGUs or groups of CGUs for the purpose of impairment testing.

In line with our drive to simplify the Group, we have continued to review the portfolio of businesses in each division. In early 2020 we decided a number of businesses in Specialist Services would benefit from closer alignment with core Capita and should be moved into other divisions (People Solutions, Government Services, Customer Management and Technology Solutions), and that some other businesses should be moved into Specialist Services (from Government Services and Software). The relevant goodwill balances were reallocated to reflect these transfers. Transfers made were the entire goodwill balances relating to the underlying businesses moving between groups of CGUs, with no individual goodwill balances needing to be apportioned out as part of this process.

Capita's Regulated Services business was transferred from Specialist Services to Customer Management. For goodwill testing purposes the Regulated Services business will continue to be treated as a separate CGUs, although as there is no goodwill attributable to this group, it has been excluded from the disclosures below. The remaining businesses in the Specialist Services division will also continue to be treated as one group of CGUs, which now encompasses the whole division.

In accordance with the divisional strategy to further align and consolidate management and oversight of the Technology Solutions division, for impairment testing the previously separate IT Services and Network Services groups of CGUs were merged into one combined Technology Solutions group of CGUs during the year.

The Board will continue to assess the level at which management exercise oversight and monitors the Group's performance to ensure the allocation of goodwill to CGUs remains appropriate.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Software £m	People Solutions £m	Customer Management £m	Central Government £m	Technology Solutions £m	Specialist Services £m	Consulting £m	Total £m
At 1 January	254.9	199.7	137.0	8.7	276.3	280.5	20.7	1,177.8
Restructuring transfers	**(19.6)**	**88.5**	**(12.6)**	**9.1**	**10.2**	**(75.6)**	**—**	**—**
Business disposal	**(3.8)**	**(8.3)**	**—**	**—**	**—**	**—**	**—**	**(12.1)**
Transfer to assets held for sale	**(45.3)**	**—**	**—**	**—**	**—**	**—**	**—**	**(45.3)**
Exchange movement	**—**	**—**	**0.1**	**—**	**—**	**—**	**—**	**0.1**
At 31 December	**186.2**	**279.9**	**124.5**	**17.8**	**286.5**	**204.9**	**20.7**	**1,120.5**

Capita Regulated Services and Local Government CGUs are not included in the table above because their related goodwill was fully impaired in prior years.

Business exits

As set out in note 2.8, three businesses (within Software, People Solutions and Specialist Services) were fully disposed of during the year, with goodwill relating to them written off as part of business disposals.

Two businesses (within Software and Regulated Services) that the Group has or intends to dispose of in 2021 meet the criteria to be treated as held-for-sale at 31 December 2020, with goodwill relating to the Software business reclassified to assets held-for-sale. There was no goodwill relating to the businesses in Regulated Services at 31 December 2020.

The impairment test

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and its value in use. As the Group continues to implement the Group-wide transformation plan, described earlier in the strategic report, it has been determined that for 2020, fair value less costs of disposal will generate the higher recoverable amount. The valuation of CGUs under fair value less costs of disposal also assumes that a third-party acquirer would undertake a similar transformation plan to derive similar benefits in the business going forward. Fair value less costs of disposal have been estimated using discounted cash flows. The fair value measurement was categorised as a Level-3 fair value based on the inputs in the valuation technique used.

In undertaking the annual impairment review, the directors considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. This included comparison to the Group's share price and market capitalisation.

The enterprise value of each CGU is dependent on the successful implementation of the transformation plan. If the transformation plan fails to drive improved returns and sustainable free cash flow in one or more of the CGUs, then this may give rise to an impairment of goodwill in future periods.

No impairment has arisen from the impairment test performed.

The key inputs to the calculations are described below, including changes in market conditions.

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Forecast cash flows
The cash flow projections prepared for the impairment test are derived from the 2021-2023 business plans (BP) and 2024-2025 strategic plans, approved by the Board in February 2021. The BP captures the benefits that the transformation plan is anticipated to deliver, and the costs to achieve these.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. Many parts of the Group have demonstrated resilience throughout 2020, adapting to address the impact of Covid-19, but the pandemic has slowed the progress of the transformation plan. The impact has been incorporated within the BP assumptions approved by the Board.

For the purpose of the impairment test, the strategic plan cash flow forecasts for 2024-2025 have been further risk adjusted to reflect additional uncertainty in outer year forecasts.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements as the corresponding balances are not included in the CGU carrying amount. The cash flows include forecast capital expenditure and restructuring, as well as an allocation of the costs of central functions.

The Board have considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. Forecast CGU EBITDA measures for 2022 (2019: 2021) were used for this purpose because these are seen to represent a steady state forecast for the Group, and an appropriate approximation of the attention and focus of the Group's central functions. As the transformation plan delivers, and there is more certainty over the impact of Covid-19 on the Group and the wider economy as a whole, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for the terminal period. The 2020 long-term growth rate is 1.6% (2019: 1.6%).

Discount rates
Management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, which are all based on publicly available external sources.

The table below represents the pre-tax discount rates used on the cash flows.

	Software	People Solutions	Customer Management	Central Government	Technology Solutions	Specialist Services	Consulting
2020	**11.8 %**	**11.2 %**	**11.0 %**	**10.5 %**	**10.2 %**	**10.9 %**	**10.9 %**
2019	11.5 %	10.9 %	10.7 %	10.2 %	9.9 %	10.6 %	10.6 %

As set out above, discount rates used in 2020 are 0.3% higher than those for 2019. The key drivers for this increase are changes in market assumptions for market risk premiums and the levered beta of peer group comparators, off-set by decreases in UK corporate bond yields and risk-free rates.

To further risk-adjust discounted cash flows for the purposes of the impairment test, the discount rate applied to years 2023 and onwards has been increased by 3% compared to that used for 2021 and 2022 (2019: no additional adjustment applied to outer year discount rates).

Sensitivity analysis
The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. In order to gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which CGUs are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to the CGUs that have goodwill.

The table below shows how the enterprise value would be impacted (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs; or, by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for both 2021 and 2022, and the long-term growth rate (1.6%) applied to projected cash flows for 2023 to 2025 and the terminal period. This downside scenario includes trading risks which assume the transformation plan is not successful in delivering the anticipated revenue growth. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m	2020 goodwill impairment using combination scenario £m
Software	(27.9)	(19.4)	(82.1)	(116.4)	—
People Solutions	(38.5)	(25.6)	(90.4)	(143.5)	—
Customer Management	(25.7)	(18.1)	(21.2)	(65.4)	—
Central Government	(32.6)	(24.1)	(111.5)	(150.1)	—
Technology Solutions	(48.1)	(33.3)	(160.1)	(219.2)	—
Specialist Services	(24.3)	(16.6)	(124.9)	(148.0)	(74.1)
Consulting	(4.1)	(2.9)	(43.7)	(43.7)	(20.7)
Total	**(201.2)**	**(140.0)**	**(633.9)**	**(886.3)**	**(94.8)**

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

At 31 December 2020, no impairment of goodwill has arisen from the impairment test performed. Under the combination sensitivity scenario, impairments have been highlighted in relation to Specialist Services and Consulting, whereas under the base case impairment test the recoverable amount exceeded the carrying amount of assets (including goodwill) relating to these CGUs by £74.0m for Specialist Services, and by £20.9m for Consulting. Under the severe but plausible downside and combination sensitivity scenarios presented, the enterprise value impact for Consulting has been capped at the enterprise value for the CGU under the base case impairment test.

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. Given the Group is in the middle of a multi-year transformation, in addition to trading being affected by the impact of Covid-19, there is a greater range of potential future outcomes. A number of these downsides would give rise to an impairment.

3.5 Right-of-use assets

AP Accounting policies

At the inception of the lease, the Group recognises a right-of-use asset at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within administrative expenses in the consolidated income statement. Amendment to lease terms resulting in a change in payments or the length of the lease results in an adjustment to the right-of-use asset and liability. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable.

Right-of-uses assets exclude leases with low values and terms of 12 months or less. These leases are expensed to the consolidated income statement as incurred.

Net Book Value	Property £m	Motor vehicles £m	Equipment £m	Total £m
At 1 January	446.0	4.3	30.6	480.9
Addition of new leases	**11.3**	**17.9**	**0.1**	**29.3**
Depreciation charged during the year	**(69.2)**	**(5.1)**	**(13.9)**	**(88.2)**
Impairment - excluded from adjusted profit	**(20.1)**	—	**(2.1)**	**(22.2)**
Transfer to disposal group assets held-for-sale	**(4.5)**	—	—	**(4.5)**
Transfer to financial lease receivables	**(68.0)**	—	—	**(68.0)**
Exchange movement	**0.5**	(0.1)	(0.4)	—
Other movements	**14.0**	(0.1)	0.9	14.8
At 31 December	**310.0**	**16.9**	**15.2**	**342.1**

During 2020, as part of the property rationalisation, the Group entered into the following transactions, impacting the right-of-use-assets:

- in January 2020, the Group acquired the freehold of a property (for £3.0m refer to note 3.2) by extinguishing its lease liability (for £22.9m). This resulted in the de-recognition of £7.1m of the right-of-use asset, and a charge to significant restructuring of £9.1m (refer to note 2.4);
- in October 2020, the above property was sold and leased back over a two-year lease term at market rent. Cash proceeds of £3.5m were received of which £0.5m was recognised as a financing arrangement to be repaid over the two-year lease term; and
- in October 2020, the Group sublet a leased property where the sub-lease was assessed as a finance lease. This resulted in the de-recognition of the right-of-use asset (£66.6m) and the recognition of a finance lease receivable (£69.9m). Refer to note 4.4.

Other movements include amendments to existing leases and terminations.

Section 3: Operating assets and liabilities continued

3.6 Provisions

AP **Accounting policies**

Provisions are recognised when the Group has a present legal or constructive obligation arising from past events, it is probable that cash will be paid to settle it, and the amount can be estimated reliably. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the consolidated income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount, timing and likelihood of actual cash flows, which are dependent on future events.

J **Significant accounting judgements, estimates and assumptions**

Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision. Where practicable, the range of reasonably possible outcomes and sensitivities of the carrying amounts to the methodology, assumptions, and estimates, the reason for the sensitivity, the expected resolution of uncertainties and the range of reasonable possible alternatives, are provided. Where no reliable basis of estimation can be made, no provision is recorded. However, contingent liabilities disclosures are given when there is a greater than a remote probability of outflow of economic benefits. See note 6.2.

On an ongoing basis, management monitor provisions and their accurate estimation when compared to final outcomes.

Onerous contract provisions
See note 2.1 for further information.

Provisions
The movements in provisions during the year are as follows:

	Restructuring provision £m	Business exit provision £m	Claim and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	6.1	10.5	41.2	8.3	6.1	8.4	80.6
Provisions provided for in the year	**31.1**	**11.6**	**13.1**	**2.5**	**36.8**	**3.3**	**98.4**
Provisions released in the year	**(0.8)**	**(3.2)**	**(4.6)**	**(2.0)**	**(2.9)**	**(1.9)**	**(15.4)**
Utilisation	**(22.9)**	**(3.6)**	**(8.0)**	**(0.1)**	**(1.9)**	**(2.4)**	**(38.9)**
Transfer to disposal group liabilities held for sale	—	—	—	—	—	**(0.4)**	**(0.4)**
Exchange movement	—	—	—	—	—	**0.1**	**0.1**
At 31 December	**13.5**	**15.3**	**41.7**	**8.7**	**38.1**	**7.1**	**124.4**

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

Restructuring provision: The provision represents the cost of reducing role count where communication to affected employees has crystallised a valid expectation that roles are at risk and it is likely to unwind over a period of one to two years. Additionally, it relates to unavoidable running costs of leasehold properties, such as insurance and security, and dilapidation provision, where properties are exited as a result of the transformation plan. These provisions are likely to unwind over periods of up to 25 years.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of one to five years.

Claims and litigation provision: The Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. £23.7m of claims provided for were settled in early 2021. Due to the nature of the remaining claims, the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: The provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used for ongoing operations, and for dilapidation costs, as part of the ordinary course of business and not the group wide transformation plan (where such costs are included in the restructuring provision). The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to seven years.

Customer contract provision: The provision includes onerous contract provisions in respect of customer contracts where the unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received under them, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. These provisions are forecast to unwind over periods up to seven years.

During 2020, an onerous contract provision of £11.2m was recognised on a contract in Customer Management. The contract has a clause such that the customer can continue to extend the contract indefinitely. Accordingly, judgement is required in assessing the remaining length of the contract to determine the provision. Management considered previous discussions with the customer regarding their intentions and experiences on other contracts, and concluded the best estimate of the remaining contract term is the current contractually committed period to 2023. However, the contract may end earlier or be extended for longer, resulting in a material release or increase in the provision in future reporting periods.

Other provisions: Relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides. These are likely to unwind over periods of up to five years.

Section 4: Capital structure and finance costs

This section outlines the Group's capital structure and financing costs. The Group defines its capital structure as its cash and cash equivalents, non-current interest bearing loans and borrowings and equity. The Group aims to manage its capital structure to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Group manages its capital structure to maintain a sustainable mix of debt and equity that ensures that the Group can pursue its strategy. The Group makes adjustments to its capital structure in light of changes in economic conditions and strategic operational risk. To maintain or adjust the capital structure, the Group may return capital to shareholders through dividends and share buy backs, sell assets, raise additional equity, or arrange additional debt facilities. In this section you will find disclosures about:

4.1 Net debt, capital and capital management
4.2 Financial risk
4.3 Net finance costs
4.4 Leases
4.5 Financial instruments and the fair value hierarchy
4.6 Issued share capital
4.7 Group composition and non-controlling interests

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Headline gearing[2]: headline net debt to adjusted EBITDA[1] (post IFRS 16)

Aim: Maintain the ratio of headline net debt to adjusted EBITDA[1] (post IFRS 16) in the range of 1.7x and 2.7x over the long term

3.1x

(2019: 2.7x)

Available liquidity

£708.6m

(2019: £494.7m)

1. Details of all alternative performance measures and related KPIs can be found in section 8.2.
2. Headline gearing differs to covenant gearing. Headline gearing is based on net debt of £1,077.1m (2019: £1,353.2m), which includes the Group's restricted cash of £34.5m (2019: £42.1m). Refer to section 8.2 for further details.

Capital strategy

The Group's capital strategy is to build a strong and flexible balance sheet, supporting the strategy and investment needed to grow the business, by reducing debt and pension liabilities. Maturing private placement loan notes will place the Group's balance sheet under pressure over the next two years. The Group plans to address this through the disposal of additional non-core businesses and refinancing.

The Board's view is that the appropriate leverage ratio for Capita over the medium term should be between 1 and 2 times headline net debt to adjusted EBITDA (prior to the adoption of IFRS 16). At 31 December 2020, the Group's headline gearing ratio was 2.4x (2019: 2.1x) excluding the impact of IFRS 16, as a result of the lower adjusted EBITDA due to the impact of Covid-19.

The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7 times headline net debt to adjusted EBITDA[1]. At 31 December 2020, this ratio exceeded this range at 3.1 times (31 December 2019: 2.7 times) for the same reasons set out above.

Liquidity

Net debt (excluding leases and restricted cash) fell by £229.2m from £832.7m to £603.5m in 2020. A further reduction resulted on 1 February 2021 with the receipt of the first tranche of consideration from the disposal of the ESS business. However, liquidity remains a key area of focus. The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. The Group's revolving credit facility (RCF) expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The facility's size was increased from £414.0m to £452.0m in February 2020 with the addition of a further bank into the facility.

Also, in February 2020, the Group executed a £150.0m committed bank backstop bridge facility. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second committed bank backstop bridge facility, so that the total value returned to £150.0m. Both bridge facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

All committed facilities were undrawn at 31 December 2020 (combined size £602.0m), and also at 31 December 2019 (£414.0m). No reliance is placed on sources of funding that are not contractually committed.

Net finance costs

Net finance costs have decreased by £12.8m to £49.6m (2019: £62.4m). The reduction is primarily due to lower levels of debt which consequently led to less debt interest (£7.5m), a reduction in the net interest on leases (£1.8m) and a £1.8m decrease in a provision for hedge ineffectiveness.

Section 4: Capital structure and financing costs continued

4.1 Net debt, capital and capital management

4.1.1 Net debt and capital

The components of the Group's net debt and undrawn available liquidity are summarised below.

	Notes	2020 £m	2019 £m	Year on year movement
Cash and cash equivalents	4.5.4	**(473.8)**	(409.1)	(64.7)
Overdraft	4.5.4	**332.7**	286.3	46.4
Lease liabilities	4.4.1	**508.1**	562.6	(54.5)
Private placement loan notes[1]	4.5.2	**765.1**	990.7	(225.6)
Other loan notes	4.5.2	**2.3**	0.3	2.0
Currency and interest rate swaps	4.5.2	**(58.0)**	(78.3)	20.3
Deferred consideration	4.5.2	**0.7**	0.7	—
Net debt		**1,077.1**	1,353.2	(276.1)
Undrawn available financing facilities	4.5.2b	**602.0**	414.0	188.0
Capital		**1,679.1**	1,767.2	(88.1)

1. Private placement loan notes include US dollar and British pound sterling private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan.

A reconciliation of net debt shown above to cash flow can be found in note 2.10.3.

The overdrafts are part of a cash pooling arrangement, and the underlying balances are fully offset by cash balances in the same arrangement.

Private placement loan notes decreased following the repayment at maturity of £187.2m on 30 June and £55.7m on 30 September. The associated currency and interest rate swaps also expired on these dates, such that the combined net cash outflow was £218.4m. The fair value of the remaining currency and interest rate swaps changed over the year with the passage of time to maturity and changes in market rates.

There are two separate sets of covenant tests underlying the Group's financial instruments. A key difference is the treatment of IFRS 16. The bank facilities and euro instruments fully exclude the impact of IFRS 16 whereas the US private placement loan notes test includes the income statement impact of IFRS 16 but not the balance sheet impact.

Under the test for the bank and euro instruments, at 31 December 2020, adjusted net debt to adjusted EBITDA ratio was 2.5x (2019: 2.2x) compared to a maximum permitted value of 3.5x and annualised interest cover was 7.8x (2019: 10.8x) compared to a minimum permitted level of 4.0x.

Under the test for the US private placement loan notes, at 31 December 2020, adjusted net debt to adjusted EBITDA ratio was 1.8x (2019: 1.7x) compared to a maximum permitted value of 3.0x and annualised interest cover was 8.5x (2019: 11.2x) compared to a minimum permitted level of 4.0x.

In calculating adjusted EBITDA for covenant purposes consideration is given to consistency of treatment of adjusted items with the prior measurement dates, including the exclusion of restructuring.

4.1.2 Capital Management

Focus on capital management forms an important component of Board meetings, including review of forecast headline gearing and key covenant tests, and the mix of funding sources, thereby ensuring sustainability and flexibility. Shareholder returns will be reviewed over time in accordance with the Group's generation of sustainable free cash flow.

The Group's capital management process ensures that it meets the financial covenants of its borrowing arrangements. There have been no breaches in the financial covenants of any loans or borrowings during the reporting period.

Capita plc supports the obligations of its various regulated financial services businesses. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that ensure the availability of adequate financial resources at all times. During the year, each complied with all externally imposed financial services regulatory capital requirements applicable to them.

The committed RCF provides the liquidity needed to cover the cash fluctuations of the business cycle, allowing a buffer for contingencies.

As part of the Group's mitigation of the impact of Covid-19, a non-recourse invoice discounting facility was put in place. The value of invoices sold under the arrangement at 31 December 2020 was £13.6m (2019: £nil). In addition, the Group's German business has established an invoice discounting arrangement relating to a customer contract, and the value of invoices sold under that arrangement at 31 December was £8.5m (2019: £nil).

The Group aims to pay its suppliers on time in accordance with agreed terms and does not seek to accelerate payments from customers beyond terms previously agreed.

Section 4: Capital structure and financing costs continued

4.2 Financial risk

Financial risk management objectives and policies
The Group's Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework, which is outlined on pages 50 to 57 of the strategic report. The Group's principal financial instruments comprise cash, bank loans, private placement loan notes, lease assets and liabilities, and derivatives. The purpose of these is to fund and provide liquidity for the Group's operations and to manage its financial risks. The Group has various other financial instruments including trade receivables and trade payables arising from its operations.

Derivatives comprise interest rate swaps, cross-currency interest rate swaps, and forward foreign currency contracts held with its relationship banks, all of which have investment grade credit ratings. The derivatives' purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance. It is the Group's policy that no speculative trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, interest rate risk, and credit risk. The Board periodically reviews and agrees policies for managing these risks, each of which are summarised below.

4.2.1 Liquidity risk
The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans.

The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis. The process considers the maturity of both the Group's financial instruments and projected cash flows from operations. The Group maintains a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding. Maturing private placement loan notes will place the Group's liquidity under pressure over the next two years. The Group plans to address this through the disposal of additional non-core businesses and refinancing.

The Group's committed bank facilities are available for operational funding and as a buffer for contingencies.

The RCF expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The facility size was increased from £414.0m to £452.0m in February 2020 with the addition of a further bank into the facility.

Also, in February 2020, the Group executed a £150.0m committed bank backstop bridge facility. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second committed bank backstop bridge facility, so that the total value returned to £150m. Both bridge facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

All committed facilities were undrawn at 31 December 2020 (combined size £602.0m), and also at 31 December 2019 (£414.0m). No reliance is placed on sources of funding that are not contractually committed.

The financial instruments providing core funding (private placement loan notes) include US private placement loan notes, euro fixed rate bearer notes, and a euro Schuldschein loan. To mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 based on contractual undiscounted payments. All balances are stated based on the prevailing foreign exchange rates and the contractual interest rates at the end of the reporting period. In accordance with IFRS 7, payments but not receipts are stated for cross-currency interest rate swaps.

At 31 December 2020	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	**332.7**	**—**	**—**	**—**	**—**	**—**	**332.7**
Private placement loan notes	**231.4**	**238.8**	**69.4**	**—**	**84.2**	**130.5**	**754.3**
Interest on loan notes	**24.9**	**14.1**	**8.9**	**7.3**	**5.7**	**6.5**	**67.4**
Lease liabilities	**102.3**	**78.0**	**69.1**	**55.8**	**44.2**	**350.4**	**699.8**
Deferred consideration	**—**	**—**	**—**	**—**	**—**	**0.7**	**0.7**
Public sector subsidiary partnership payment	**9.4**	**9.4**	**9.4**	**—**	**—**	**—**	**28.2**
Put options of non-controlling interests	**99.7**	**—**	**—**	**—**	**—**	**—**	**99.7**
Cross-currency interest rate swaps	**0.8**	**0.6**	**0.6**	**0.3**	**0.3**	**0.3**	**2.9**
Other financial instruments	**1.1**	**0.8**	**0.7**	**0.1**	**—**	**—**	**2.7**
	802.3	**341.7**	**158.1**	**63.5**	**134.4**	**488.4**	**1,988.4**

At 31 December 2019	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	286.3	—	—	—	—	—	286.3
Private placement loan notes	232.7	236.0	231.3	70.6	—	214.0	984.6
Interest on loan notes	31.3	25.0	14.0	8.9	7.3	12.1	98.6
Lease liabilities	101.6	86.6	68.1	60.4	50.6	384.6	751.9
Contingent consideration	5.0	—	—	—	—	—	5.0
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	—	—	37.6
Put options of non-controlling interests	103.1	5.8	—	—	—	—	108.9
Cross-currency interest rate swaps	1.2	1.2	0.9	0.8	0.4	0.9	5.4
Other financial instruments	0.8	—	—	—	—	—	0.8
	771.4	364.0	323.7	150.1	58.3	611.6	2,279.1

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

4.2.2 Foreign currency risk

The Group is not generally exposed to significant foreign currency transaction risk apart from two exceptions. Firstly, services are provided by the Group's operations in India and incurred in Indian Rupee (INR). The Group seeks to mitigate the short term effect of this exposure by entering into forward foreign exchange contracts (Non-deliverable Forward Contracts (NDFs)) to fix the British pounds sterling (GBP) cost of highly probable transactions over a rolling 24 month period.

At 31 December 2020, the Group held forward foreign exchange contracts against forecast internal monthly INR costs expected in the years up to and including December 2022. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under executed customer contracts.

Secondly, the Group holds foreign exchange forwards against committed costs relating to the purchase of cloud software services in US dollars (USD) in the years up to and including January 2024.

To maximise hedge effectiveness, forward foreign exchange contracts are executed with terms matching the underlying cash flows.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a 5% strengthening/(weakening) in INR and USD exchange rates, assuming all other variables are unchanged, that would arise from the resulting changes in the fair value of the Group's forward exchange contracts.

	USD		INR	
	Effect on profit before tax £m	Effect on equity £m	Effect on profit before tax £m	Effect on equity £m
2020	**—**	**(4.4)**	**—**	**(5.3)**
2019	—	(1.2)	—	(3.9)

4.2.3 Interest rate risk

The Group manages its interest rate exposure, which arises from the Group's private placement loan notes, through cash and deposits at variable interest rates, and through interest rate and cross-currency interest rate swaps. The swaps are designated fair value hedges against the fair value changes of the private placement loan notes.

The replacement of benchmark interest rates such as LIBOR and other interbank offered rates (IBORs) is a priority for global regulators and is expected to be largely completed in 2021. The Group's IFRS 9 designated hedge relationships that are impacted by IBOR reform comprise the cross currency interest rate swaps that hedge certain US private placement loan notes. Excluding those that expire in July 2021, these have a notional value of £181.1m. These derivatives are subject to the International Swaps and Derivatives Association's (ISDA) terms and ISDA has published a fall back protocol. In 2020 the Group started discussions with its banks with the aim of implementing the provisions in 2021.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended. The Group early adopted the Phase 1 amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' in 2019. There was no financial impact from the early adoption of these amendments. Further amendments (Phase 2) were issued on 27 August 2020 and the Group will apply these in 2021.

The net level of floating rate interest exposure is managed, to arrive at an acceptable overall interest rate risk profile. The interest rate profile of the Group's interest-bearing financial instruments was as follows:

At 31 December 2020	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Private placement loan notes	**35.2**	**181.1**	**27.3**	**—**	**29.4**	**95.9**	**368.9**
Floating rate							
Cash in hand	**(473.8)**	**—**	**—**	**—**	**—**	**—**	**(473.8)**
Overdraft	**332.7**	**—**	**—**	**—**	**—**	**—**	**332.7**
Private placement loan notes	**197.5**	**58.4**	**43.5**	**—**	**59.2**	**37.6**	**396.2**
Interest rate swaps	**(0.5)**	**—**	**—**	**—**	**—**	**—**	**(0.5)**
Cross-currency interest rate swaps	**(24.1)**	**(10.1)**	**(4.9)**	**—**	**(13.2)**	**(5.2)**	**(57.5)**

At 31 December 2019	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Private placement loan notes	92.3	35.7	171.1	27.4	—	122.3	448.8
Floating rate							
Cash in hand	(409.1)	—	—	—	—	—	(409.1)
Overdraft	286.3	—	—	—	—	—	286.3
Private placement loan notes	140.2	204.8	59.4	43.4	—	94.1	541.9
Interest rate swaps	—	(1.0)	—	—	—	—	(1.0)
Cross-currency interest rate swaps	(15.5)	(30.3)	(11.1)	(4.8)	—	(15.6)	(77.3)

A sensitivity analysis to changes in interest rates shows that a 0.5% increase or decrease in interest rates, assuming all other variables are held constant, results in an £1.6m (2019: £2.3m) increase or decrease to profit before tax, and no impact on the Group's equity.

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

4.2.4 Hedges

Fair value hedges
The Group's fixed rate USD and GBP private placement loan notes are hedged through a combination of interest rate and cross-currency interest rate swaps. The cross-currency interest rate swaps hedge the exposure to changes in the fair value of US dollar denominated loan notes. The loan notes and their corresponding swaps have the same critical terms including nominal and maturity.

The total loss in the year on the fair value hedges of £20.3m (2019: £23.1m) was equal to the gain/loss on the hedged items resulting in no net gain or loss in the income statement apart from hedge ineffectiveness from credit risk and currency basis risk. This effect of hedge ineffectiveness was a £1.0m debit (2019: £2.8m debit) to the consolidated income statement – shown in net finance costs, note 4.3.

The impact of the hedged item and the related financial derivatives on the consolidated balance sheet at 31 December 2020 is as follows:

	Notional amount £m	Carrying amount £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Interest rate swaps – assets	**26.0**	**0.5**	Financial assets	(0.5)
Cross-currency interest rate swaps – assets	**269.3**	**60.2**	Financial assets	(20.7)
Cross-currency interest rate swaps – liabilities	**(44.7)**	**(2.7)**	Financial liabilities	0.9
		58.0		(20.3)

	Carrying amount £m	Accumulated FV adjustment £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Private placement loan notes	**765.1**	**58.0**	Financial Liabilities	20.3

Cash flow hedges
The Group holds a series of non-deliverable forward foreign exchange contracts, that are designated as hedges of the highly probable transactions in INR of the Group's Indian operations. The terms of the NDFs match the terms of these commitments.

Secondly, the Group holds foreign exchange forward contracts against committed costs relating to the purchase of cloud software services in USD in years up to and including January 2024.

The fair value of cash flow hedging instruments held at 31 December 2020 is shown in note 4.5.2.

The cash flow hedges have been assessed to be highly effective. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments. The following table provides an analysis of components of equity resulting from cash flow hedge accounting:

	2020 £m	2019 £m
At 1 January	**0.2**	1.5
Change in fair value recognised in the consolidated statement of comprehensive income	**(1.6)**	1.0
Reclassified to the consolidated income statement	**(4.5)**	(2.6)
Change in deferred tax	**1.1**	0.3
At 31 December	**(4.8)**	0.2

4.2.5 Credit risk
The Group trades only with third parties that are expected to be creditworthy. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties that they can fulfil their obligations. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit loss remains low.

The carrying values of the Group's financial assets and contract assets represent its maximum credit exposure.

The mark-to-market movement on derivatives includes the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments and that of the Group itself (own credit risk). The Group is comfortable that the risk attached to those counterparties is not significant and believes that the swaps continue to act as an effective hedge against the movements in the fair value of the Group's private placement loan notes.

Section 4: Capital structure and financing costs continued

4.3 Net finance costs

The table below shows the composition of net finance costs, including those excluded from adjusted profit:

	Notes	2020 £m	2019 £m
Interest income			
Interest on cash		**(1.6)**	(3.6)
Interest on finance lease assets		**(1.2)**	(0.6)
Total interest income		**(2.8)**	(4.2)
Interest expense			
Private placement loan notes[1]		**20.6**	28.1
Cash flow hedges recycled to the income statement	4.2.4	**(4.5)**	(2.6)
Bank loans and overdrafts		**5.0**	4.2
Interest on finance lease liabilities		**25.1**	26.3
Net interest cost on defined benefit pension schemes	5.2	**3.2**	4.4
Total interest expense		**49.4**	60.4
Net finance expense included in adjusted profit		**46.6**	56.2
Other financial expenses			
Discount unwind on public sector subsidiary partnership payment	4.5.2	**1.1**	1.3
Non-designated foreign exchange forward contracts – mark-to-market		**0.9**	2.1
Fair value hedge ineffectiveness[2]	4.2.4	**1.0**	2.8
Total other financial expenses not included in adjusted profit		**3.0**	6.2
Total net finance expense		**49.6**	62.4

1. Private placement loan notes comprise US private placement loan notes, euro fixed rate bearer notes, and a Schuldschein loan.
2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

Section 4: Capital structure and financing costs continued

4.4 Leases

AP Accounting policies

The Group leases various assets, comprising land and buildings, equipment and motor vehicles.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The following sets out the Group's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which are expensed to the consolidated income statement.

The Group as a lessee – Right-of-use assets and lease liabilities
The accounting policy for right-of-use assets is included in note 3.5.

The Group recognises lease liabilities where a lease contract exists and right-of-use assets representing the right to use the underlying leased assets.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Incremental borrowing rates are determined monthly and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on swap market data; a country-specific risk adjustment; a credit risk adjustment; and an entity-specific adjustment where the entity risk profile is different to that of the Group.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term.

Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within net finance costs in the consolidated income statement.

Lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Group has reasonable certainty that the option will be exercised, and periods covered by an option to terminate are included if it is reasonably certain that this will not be exercised.

The Group has elected to apply the practical expedient in IFRS 16 paragraph 15 not to separate non-lease components such as service charges from lease rental charges.

The Group as a lessor
When the Group acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease.

The Group acts as an intermediate lessor of property assets and equipment. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset arising from the head lease, not with reference to the underlying asset.

In instances where the Group is the intermediate lessor and the sub-lease is classified as a finance lease, the Group recognises a net investment in sub-leases for amounts recoverable from the sub-lessees while derecognising the respective portion of the gross right-of-use asset. The gross lease liability is retained on the balance sheet. The net investment in sub-leases is classified as current or non-current finance assets in the consolidated balance sheet according to whether or not the amounts will be recovered within 12 months of the balance sheet date. Finance income recognised in respect of net investment in sub-leases is presented within net finance costs in the consolidated income statement and the capital element of lease rental received is presented within investing activities in the consolidated cash flow statement.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as a finance lease receivables, using incremental borrowing rate where the interest rate implicit in sub-lease is not easily determinable.

Sale and leaseback
A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. For sale and leasebacks, any gain or loss from the sale is recognised in proportion to the gain or loss that relates to the rights transferred to the buyer. If the consideration for the sale is not equal to the fair value of the asset, any resulting difference is treated as either a prepayment of the lease payments or additional financing.

Section 4: Capital structure and financing costs continued

4.4.1 The Group as a lessee

Amounts recognised on the balance sheet	Note	2020 £m	2019 £m	Type of financial instrument
Lease liabilities		503.5	562.6	Financial liabilities
Lease liabilities included within disposal group liabilities held-for-sale	2.8	4.6	—	
Total		508.1	562.6	

The lease liability includes £10.7m (2019: £14.3m) of future lease payments (undiscounted) for leases with termination options that could be exercised but are recognised at full term. The potential future cash outflows of £37.2m (2019: £44.2m) (undiscounted) have not been included in the lease liability because the Group is reasonably certain that the leases will not be extended. The total cash outflow for leases was £123.1m (2019: £120.0m) consisting of interest paid of £25.1m (2019: £26.3m) and capital element of £98.0m (2019: £93.7m).

Right-of-use assets are discussed in note 3.5, the maturity analysis of lease liabilities is included in note 4.2 and interest expense in note 4.3.

4.4.2 The Group as a lessor

Amounts recognised on the balance sheet	2020 £m	2019 £m	Type of financial instrument
Lease receivables	82.6	14.9	Financial assets

The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

	2020 £m	2019 £m
Within 1 year	4.6	3.8
Between 1-2 years	10.6	3.5
Between 2-3 years	9.7	3.0
Between 3-4 years	9.7	2.1
Between 4-5 years	8.2	2.1
More than 5 years	80.7	2.1
Total undiscounted lease payments receivable	123.5	16.6
Unearned finance income	(40.9)	(1.7)
Net investment in lease receivables	82.6	14.9

During the year, the Group sublet a leased property. The sublease includes an option for the lessee to terminate the lease earlier than the Group's lease with its landlord. Management assessed it was reasonably certain that the break clause will not be exercised and ,accordingly, determined that the sublease is a finance lease. This has resulted in the recognition of a finance lease receivable (£69.9m). This judgement was based on a number of factors as prescribed within IFRS 16 'Leases' such as incentive to lessee, importance of the location to the lessee's operations, shorter non-cancellable period of lease and the lessee's planned modifications to, and customisation of, the property.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy

AP Accounting policies

Financial instruments – classification of financial instruments
The Group classifies its financial instruments in the following measurement categories:

- those to be measured subsequently at fair value, either through other comprehensive income (FVOCI) or through profit or loss (FVPL); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments – initial recognition
At initial recognition, the Group measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in the income statement.

Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Purchases and sales of financial instruments are recognised on their trade date (ie the date the Group commits to purchase or sell the instrument). Financial instruments are derecognised when the rights to receive/pay cash flows from the financial instrument have expired or have been transferred such that the Group has transferred substantially all risks and rewards of ownership.

Debt instruments
Debt instruments are initially recognised at fair value less directly attributable transaction costs and are subsequently remeasured depending on the Group's business model for managing the liability and the cash flow characteristics of the liability. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: instruments that are held for collection/payment of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income/expense from these financial instruments is included in net finance costs using the effective interest rate method.
- FVOCI: instruments that are held for collection/payment of contractual cash flows and for selling the financial instrument, where the instrument's cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the income statement. When the financial instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in other gains/(losses).
- FVPL: instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is measured at FVPL is recognised in the income statement and presented within net finance costs.

The Group reclassifies debt instruments when and only when its business model for managing those instruments changes.

Equity instruments
Investments in equity instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recognised through the income statement, except where an election has been made for the movement to be recognised through OCI. An election can be made on initial recognition of equity instruments that are neither held-for-trading or instruments acquired as part of a business combination. Once an election has been made all movements in fair value, with the exception of dividends, are presented through OCI and there is no subsequent reclassification of fair value gains and losses to the income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as other income when the Group's right to receive payments is established.

Impairment
The Group assesses, on a forward looking basis, the expected credit losses associated with its financial instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Derivatives
Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value at the end of each reporting period with the movement recognised through the income statement, except where derivatives qualify for cash flow hedge accounting. The effective proportion of cash flow hedges is recognised in OCI and presented in the hedging reserve within equity. The cumulative gain or loss is subsequently reclassified to the income statement in the same period that the relevant hedged transaction is realised.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

4.5.1 Fair value hierarchy
The Group's financial assets and liabilities are classified based on the following fair value hierarchy:

- Level-1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level-2: other techniques for which all inputs have a significant effect on the recorded fair value are observable, either directly or indirectly. With the exception of current financial instruments (which have a short maturity), the fair value of the Group's level-2 financial instruments were calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings nominal value approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.
- Level-3: techniques using inputs that have a significant effect on the recorded fair value which are not based on observable market data. Other financial instruments where observable market data is not available have been held at either amortised cost or cost (undiscounted cash flows) as a reasonable approximation of fair value.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.1 Fair value hierarchy continued
During the year ended 31 December 2020, there were no transfers between fair value levels.

4.5.2 Financial instruments and their fair value hierarchy classification
The following table analyses, by classification and category, the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

At 31 December 2020	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables	4.4.2	Level-2	—	—	—	82.6	82.6	3.8	78.8
Cash flow hedges	4.2.4	Level-2	—	—	0.1	—	0.1	—	0.1
Non-designated foreign exchange forwards and swaps		Level-2	2.9	—	—	—	2.9	1.3	1.6
Interest rate swaps	a	Level-2	—	—	0.5	—	0.5	0.5	—
Cross-currency interest rate swaps	a	Level-2	—	—	60.2	—	60.2	26.5	33.7
Investments		Level-3	1.8	—	—	—	1.8	—	1.8
Other investments		Level-3	—	1.0	—	—	1.0	—	1.0
			4.7	1.0	60.8	82.6	149.1	32.1	117.0
Other financial assets									
Cash	4.5.4	Level-1	—	—	—	473.8	473.8	473.8	—
Total financial assets			4.7	1.0	60.8	556.4	622.9	505.9	117.0

At 31 December 2020	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private placement loan notes	a	Level-2	—	—	—	765.1	765.1	233.9	531.2
Other loan notes		Level-2	—	—	—	2.3	2.3	2.3	—
Cash flow hedges	4.2.4	Level-2	—	—	2.8	—	2.8	0.6	2.2
Non-designated foreign exchange forwards and swaps		Level-2	1.7	—	—	—	1.7	1.4	0.3
Cross-currency interest rate swaps	a	Level-2	—	—	2.7	—	2.7	1.2	1.5
Public sector subsidiary partnership payment	c	Level-3	—	—	—	27.1	27.1	8.7	18.4
Contingent consideration		Level-3	—	—	—	—	—	—	—
Deferred consideration		Level-2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	99.7	—	—	99.7	99.7	—
			1.7	99.7	5.5	795.2	902.1	347.8	554.3
Other financial liabilities									
Overdrafts	4.5.4	Level-1	—	—	—	332.7	332.7	332.7	—
Lease liabilities	4.4.1	Level-2	—	—	—	503.5	503.5	77.5	426.0
Lease liabilities included within disposal group liabilities held-for-sale	2.8	Level-2	—	—	—	4.6	4.6	4.6	—
Total financial liabilities			1.7	99.7	5.5	1,636.0	1,742.9	762.6	980.3

Financial assets measured at amortised cost consist of cash, insurance assets recoverable, lease receivables and other investments. The carrying values of these financial assets are a reasonable approximation of their fair value due to the short-term nature of the instruments. Included in other investments are £1.0m (2019: £2.4m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at FVOCI. During the year no dividends were received from, and no disposals were made of, strategic investments.

Financial liabilities measured at amortised cost consist of overdrafts, lease liabilities and loan notes. With the exception of the series of private placement loan notes which have not been swapped to floating interest, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series that remain subject to fixed rate interest have an underlying carrying value of £368.8m (2019: £450.0m) and a fair value of £309.8m (2019: £462.8m). Lease liabilities are measured at amortised cost using the effective interest rate method.

The Group's key financial liabilities are set out below:

a. Private placement loan notes
Private placement loan notes are issued at fixed rates of interest. Some of the series have been swapped into floating rates of interest.

To mitigate exposure to currency fluctuations the Group has entered into currency and interest rate swaps which effectively hedge movements in the loan notes' fair value arising from changes in foreign exchange and interest rates.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

b. Bank Facilities
Details of the Group's bank facilities are provided in the Liquidity section above. At 31 December 2020, the total value of committed facilities was £602.0m, all of which were undrawn (2019: total facilities of £414.0m, fully undrawn).

c. Public sector subsidiary partnership payment
The public sector subsidiary partnership payment liability represents the annual deferred payments to be made by AXELOS Limited. Since the payment conditions have been reached and the liability cap met, sensitivity to changes in either the discount rate or projected cash flows have no impact.

d. Put options of non-controlling interests
The liability represents the present value of the cost to acquire non-controlling interests in AXELOS Limited and Fera Science Limited (see note 4.7). The cost to acquire the non-controlling interest in AXELOS Limited is based on a set multiple of earnings before interest and tax specified in the put-option agreement. The put-option held by the non-controlling shareholder of AXELOS Limited was exercisable at 31 December 2020, and as a consequence the liability was classified as current. The put option expired on 28 February 2021 and was not exercised. The option held by the non-controlling shareholder of Fera Science Limited is exercisable from April 2021 and has been classified as current (2019: non-current). A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £10.3m increase/decrease in the valuation.

At 31 December 2019	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables	4.4.2	Level-2	—	—	—	14.9	14.9	3.6	11.3
Cash flow hedges	4.2.4	Level-2	—	—	3.4	—	3.4	2.9	0.5
Non-designated foreign exchange forwards and swaps		Level-2	3.2	—	—	—	3.2	3.1	0.1
Interest rate swaps	a	Level-2	—	—	1.0	—	1.0	—	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	80.9	—	80.9	15.5	65.4
Investments		Level-3	1.5	—	—	—	1.5	—	1.5
Other investments		Level-3	—	2.4	—	—	2.4	—	2.4
			4.7	2.4	85.3	14.9	107.3	25.1	82.2
Other financial assets									
Cash	4.5.4	Level-1	—	—	—	409.1	409.1	409.1	—
Total financial assets			4.7	2.4	85.3	424.0	516.4	434.2	82.2

At 31 December 2019	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private placement loan note	a	Level-2	—	—	—	990.7	990.7	232.5	758.2
Other loan notes		Level-2	—	—	—	0.3	0.3	0.3	—
Cash flow hedges	4.2.4	Level-2	—	—	0.5	—	0.5	—	0.5
Non-designated foreign exchange forwards and swaps		Level-2	2.6	—	—	—	2.6	1.6	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	3.6	—	3.6	—	3.6
Public sector subsidiary partnership payment	c	Level-3	—	—	—	35.4	35.4	9.4	26.0
Contingent consideration		Level-3	5.0	—	—	—	5.0	5.0	—
Deferred consideration		Level-2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	108.7	—	—	108.7	103.0	5.7
			7.6	108.7	4.1	1,027.1	1,147.5	351.8	795.7
Other financial liabilities									
Overdrafts	4.5.4	Level-1	—	—	—	286.3	286.3	286.3	—
Lease liabilities	4.4.1	Level-2	—	—	—	562.6	562.6	81.9	480.7
Total financial liabilities			7.6	108.7	4.1	1,876.0	1,996.4	720.0	1,276.4

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

The following table shows the reconciliation from the opening balances to the closing balances for Level-3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Investments and other investments £m
At 1 January	5.0	35.4	108.7	3.9
Gain on final settlement recognised in the income statement	**(0.1)**	—	—	**1.6**
Payments made	**(4.9)**	**(9.4)**	—	—
Change in put-options recognised in other comprehensive income	—	—	**(9.0)**	—
Additions	—	—	—	**2.6**
Disposals	—	—	—	**(3.9)**
Impairments	—	—	—	**(0.4)**
Loss on fair value recognised in other comprehensive income	—	—	—	**(1.0)**
Discount unwind recognised in the income statement	—	**1.1**	—	—
At 31 December	—	**27.1**	**99.7**	**2.8**

4.5.3 Borrowings

Details of the Group's RCF and backstop bridge facilities are shown in the above liquidity section (see note 4.5.2b).

Borrowing costs of £0.5m were capitalised in the year (2019: £nil). At 31 December 2020, the Group's private placement loan note series had a GBP equivalent underlying carrying value of £707.1m (2019: £912.4m) (see note 4.5.2a) analysed as follows:

Maturity	Denomination	Interest rate %	Nominal value Ccy'm
19 July 2021[1]	GBP	4.760	26.0
27 October 2021	GBP	2.180	36.0
22 January 2022	GBP	3.260	18.6
27 October 2023	GBP	2.520	27.5
22 January 2025	GBP	3.540	7.4
22 April 2025	GBP	3.670	22.3
27 October 2026	GBP	2.770	18.6
22 January 2027	GBP	3.580	23.8
Total GBP denominated	GBP		180.2
19 July 2021	USD	4.500	175.3
26 July 2021	USD	4.750	37.1
27 October 2021	USD	3.030	18.6
22 January 2022	USD	3.330	29.7
22 April 2022	USD	3.430	48.3
22 January 2023	USD	3.450	39.4
27 October 2023	USD	3.370	17.8
22 January 2025	USD	3.650	74.3
27 October 2026	USD	3.590	19.3
22 January 2027	USD	3.800	27.5
Total USD denominated[2]	USD		487.3
10 November 2022	EUR	2.125	166.1
10 November 2022	EUR	2.125	16.0
10 November 2027	EUR	2.875	60.0
Total euro denominated[3]	EUR		242.1

1. The Group has entered into interest rate swaps to convert the interest cost to floating rates based on 6-month GBP LIBOR.
2. USD denominated loan notes have a GBP equivalent underlying carrying value of £313.0m. The Group has entered into cross-currency interest rate swaps for the USD issues to achieve a floating rate of interest based on 6-month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 4.2.
3. Euro denominated loan notes have a GBP equivalent underlying carrying value of £215.5m.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.4 Cash, cash equivalents and overdrafts
The Group has a notional cash pool under which the bank may net cash balances with overdrafts held by other Group companies in the arrangements. The overdraft balances shown below are fully offset by credit balances in the same arrangement. The Group's gross cash position is shown in the table below:

	2020 £m	2019 £m
Cash and cash equivalents	**460.9**	409.1
Overdrafts	**(332.7)**	(286.3)
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale	**12.9**	—
Cash, cash equivalents and overdrafts	**141.1**	122.8

Cash includes £9.4m held in a 32-day notice deposit account (2019: £28.5m held in a 32-day notice account).

Section 4: Capital structure and financing costs continued

4.6 Issued share capital

Allotted, called up and fully paid	2020 m	2019 m	2020 £m	2019 £m
Ordinary shares of 2 1/15p each				
At 1 January	**1,671.1**	1,671.1	**34.5**	34.5
At 31 December	**1,671.1**	1,671.1	**34.5**	34.5

Share premium	2020 £m	2019 £m
Ordinary shares of 2 1/15p each		
At 1 January	**1,143.3**	1,143.3
At 31 December	**1,143.3**	1,143.3

Treasury shares	2020 m	2019 m	2020 £m	2019 £m
Ordinary shares of 2 1/15p				
At 1 January	**2.6**	2.9	**(0.1)**	(0.1)
Shares allotted in the year	**(0.3)**	(0.3)	**—**	—
At 31 December	**2.3**	2.6	**(0.1)**	(0.1)

In 2020, the Group made no purchases of shares into Treasury and allotted 276,614 (2019: 281,762) shares with an aggregate nominal value of £5,717 (2019: £5,824). The total consideration received in respect of these shares was £nil (2019: £nil).

Employee benefit trust shares	2020 m	2019 m	2020 £m	2019 £m
Ordinary shares of 2 1/15p				
At 1 January	**12.6**	12.0	**(11.1)**	(11.1)
Shares acquired during the year	**—**	0.6	**—**	—
At 31 December	**12.6**	12.6	**(11.1)**	(11.1)

The Group will use shares held in the employee benefit trust (EBT) to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the year, the EBT allotted nil (2019: nil) ordinary 2 1/15p shares with an aggregate nominal value of £nil (2019: £nil) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2019: £nil). The Group acquired nil (2019: 0.6m) ordinary 2 1/15p shares paying an average market price of £nil per share with the total value of £nil (2019: £0.7m).

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

4.7 Group composition and non-controlling interests

The Group's subsidiaries are listed in notes 7.3.4 and 7.3.16 of the Parent Company financial statements on pages 195 and 198 to 202. This list includes AXELOS Limited and Entrust Support Services Limited which both have 49% non-controlling interests, and Fera Science Limited which has a 25% non-controlling interest.

The Group holds a majority of the voting rights in all of its subsidiaries and the directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Limited (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassess whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the licence). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. Consequently, the Group has not consolidated DCC within its Group financial statements. The disclosure of related party transactions with DCC is included in note 6.1.

Section 5: Employee benefits

This section details employee related items that are not explained elsewhere in the financial statements.

In this section you will find disclosures about:

5.1 Share-based payment plans
5.2 Pensions
5.3 Employee benefit expense

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Additional funding into the defined benefit schemes

£29.5m

(2019: £71.1m)

Net defined benefit pension liability

£252.1m

(2019: £252.5m)

Employee benefit expense

£1,794.8m

(2019: £1,919.9m)

The net defined benefit liability decreased slightly year on year. As part of the deficit funding plan £29.5m of additional funding was paid into the defined benefit schemes.

Net defined benefit pension liability	2020 £m	2019 £m	Movement £m
Defined benefit obligation	**1,882.3**	1,697.0	185.3
Fair value of plan assets	**(1,630.2)**	(1,444.5)	(185.7)
Net defined pension liability	**252.1**	252.5	(0.4)

The main reason for the increase in liabilities over the year was due to the material fall in the yields available on good quality, long term corporate bonds – which is used to derive the discount rate to value the liabilities. The schemes are highly sensitive to the change in discount rates with a 0.1% pa change resulting in a £39.5m impact. The increase in the liability due to change in market conditions was broadly offset by favourable membership experience, as well as an increase in the scheme assets due to employer contributions and higher than expected returns.

The Capita Pension and Life Assurance Scheme (CPLAS) is the Group's main defined benefit scheme. The valuation of liabilities for funding purposes (the actuarial valuation) differs to the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates (the effective date for the actuarial valuation is 31 March). The assumptions used for funding purposes allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the CPLAS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS 19, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term. Management estimate that at 31 December 2020 the net liability of the CPLAS scheme was significantly less on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2017) than on an accounting basis.

Decrease in employee benefit expense of £125.1m reflects lower average headcount in 2020, impact of Coronavirus Job Retention Scheme (£21.3m) and lower discretionary bonus scheme charge in 2020, due to cancellation of 2019 scheme in 2020 and decision taken not to issue a 2020 scheme.

Section 5: Employee benefits

5.1 Share-based payment plans

The Group operates a number of executive and employee equity-settled share schemes.

AP Accounting policies

The fair value of the equity instrument granted is measured at grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model, only taking into account vesting conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, as market conditions have been reflected in the fair value of the equity instruments.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the consolidated income statement, with a corresponding adjustment to equity.

Where the terms of an award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period adjusted for the incremental fair value of any modification ie the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the consolidated income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The expense recognised for share based payments (before deferred tax) in respect of employee services received during the year to 31 December 2020 was £6.4m (2019: £3.0m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

Deferred annual bonus plan
This scheme is applicable to executive directors. Under this scheme, awards are made annually consisting of only deferred shares, which are linked to the payout under the annual bonus scheme (details of which are contained in the directors' remuneration report on pages 90 to 108).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2020 was £0.64. The weighted average share price during the year was £0.57 (2019: £1.31).

The total cash value of the deferred shares awarded during the year was £nil (2019: £0.7m).

Long-term incentive plans (LTIPs) – 2017
The 2017 LTIP was approved and adopted at the AGM on 13 June 2017. This scheme is open to executive directors and senior employees and shares may vest according to performance criteria.

For the 2017 award, 75% of the award was based on EPS growth and 25% was based on return on capital employed, measured over a three year period. Threshold vesting (25%) for each measure was dependent upon: the EPS growth exceeding 3%; return on capital employed exceeding 11%. Maximum vesting (100%) for each measure was dependent upon: the EPS growth exceeding 8%; return on capital employed exceeding 15%. These conditions were not met, therefore all shares awarded lapsed.

For the 2018 award, one-third of the award was subject to retention over a three-year vesting period at which point this portion of the award will vest in full. The remainder of the award was subject to performance conditions, namely: annualised cost savings, free cash flow and EBIT margin, customer satisfaction and employee engagement, all measured over a three-year period. Threshold vesting (25%) for each measure was dependent upon: annualised costs savings reaching £160m; free cash flow reaching £180m; EBIT margin exceeding 9%; 6 point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure was dependent upon: annualised cost savings reaching £175m; free cash flow reaching £200m; EBIT margin of 10%; 8 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure was dependent upon: annualised cost savings reaching £205m; free cash flow reaching £240m; EBIT margin of 12%; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards were also subject to an underpin based on an assessment of underlying financial and operational performance.

For the 2019 award, 75% of the award was equally weighted between free cash flow, EBIT margin and organic revenue growth, with the remaining 25% split equally between customer satisfaction and employee engagement, measured over a three-year period. Threshold vesting (25%) for each measure is dependent upon: free cash flow reaching £190m; EBIT margin exceeding 9%; organic revenue growth to £3,900m; 6 point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure is dependent upon: free cash flow reaching £120m; EBIT margin exceeding 10%; organic revenue growth to £3,950m; 8 point positive swing in NPS for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure is dependent upon: free cash flow reaching £240m; EBIT margin of 12%; organic revenue growth to £4,050m; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards are also subject to an underpin based on an assessment of underlying financial and operational performance.

The 2020 award is split into three equal tranches that may vest on the first, second and third anniversary of the grant date. 50% of each tranche is subject to a retention element which will vest in full on each annual vesting date, with the remaining 50% subject to a performance condition that is set in the first quarter of each year. For the first tranche in 2020, headline net debt was set as the performance condition. Threshold vesting (25%) is dependent on headline net debt falling to £872m, target vesting (50%) is dependent on net debt falling to £822m and maximum vesting (100%) is dependent on net debt being below £772m.

Section 5: Employee benefits continued

5.1 Share-based payment plans continued

Details of the LTIP awards made to executive directors over the same period are set out in the directors' remuneration report, on page 103.

All of the above awards are subject to a performance underpin – assessment of the underlying financial and operational performance of Capita over the performance period.

	2020 m	2019 m
Outstanding at 1 January	**38.0**	29.7
Awarded during the year	**16.2**	17.2
Exercised	**(0.3)**	(0.3)
Forfeited	**(5.4)**	(8.6)
Outstanding at 31 December	**48.5**	38.0
Exercisable at 31 December	**—**	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2020 was 0.8 years (2019: 1.5 years). There are no exercise prices for any options issued under the 2008 LTIP scheme.

All schemes
The fair value of the options granted/awarded during the year was £0.33 per share (2019: £1.25 per share). None of the existing option schemes have exercise prices.

The fair value for the 2017, 2018, 2019 and 2020 share scheme issues is effectively the market price of a Capita share at the date of grant. Accordingly, no assumptions have been disclosed. The fair value of equity-settled share options granted pre-2017 is estimated at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

5.2 Pensions

AP Accounting policies

Defined contribution pension schemes
The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the consolidated income statement as the related service is provided and as they fall due.

Defined benefit pension schemes
In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the consolidated income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the consolidated income statement during the period in which the settlement or curtailment occurs.

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained earnings and will not be reclassified to the consolidated income statement. The Group generally determines the net interest expense/income on the net defined benefit asset/liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments. However, due consideration is made to events which require the net interest expense/income on the net defined benefit asset/liability to be re-measured over the course of the year.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs.

In respect of one of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

The liability on the consolidated balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. The policy to determine fair value of plan assets is covered in the note below. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Section 5: Employee benefits continued

5.2 Pensions continued

J Significant accounting judgements, estimates and assumptions

The measurement of defined benefit obligations – the accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of our current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Group uses estimates for all of these factors in determining the pension costs and liabilities incorporated in our financial statements. The assumptions reflect historical experience and our judgement regarding future expectations. The Group operates both defined benefit and defined contribution pension schemes.

The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been increased from 0.20% pa at 31 December 2019 to 0.25% pa at 31 December 2020, reflecting an allowance for developments linked to the RPI reform proposals. For CPI, the Group reduced the assumed difference between the RPI and CPI by 0.25% pa to an average of 0.75% pa. The estimated impact of the change in the methodology is approximately a £10m increase in the defined benefit obligation in respect of the CPLAS scheme.

Covid-19 has brought into sharp focus the resource and environmental risks faced by companies running occupation pension schemes. Since the start of the pandemic in early 2020, there has been high levels of volatility in investment markets and, as a result, in the funding positions of defined benefit pension schemes sponsored by the Group. The investment markets have stabilized to some degree since then, but a direct impact of Covid-19 has been the write down in certain investment classes currently invested in, such as property funds and private debt. As long as the economic outlook remains uncertain then the volatility in the investment markets is also expected to persist.

The volatility in investment markets also resulted in credit spreads increasing significantly during March 2020 before falling back down. This has led to greater uncertainty around setting an appropriate discount rate to assess the value of the defined benefit pension schemes sponsored by the company for these financial statements. The company has not changed its approach in setting the discount rate assumption (which is by reference to a corporate bond curve fitted to appropriate corporate bond yield data) but will keep this approach under review in light of developments in the marketplace.

The impact on the effects on future life expectancy is also uncertain. The pandemic is likely to have an impact on the setting of appropriate life expectancy assumptions and models for future improvements will need to consider whether the experience in 2020 is a one-off, and if the pandemic will influence future mortality in other ways. For example, the pressure on health services may mean that progress against other causes of death such as cancer is slower than previously expected, meaning an assumption of a lower rate of mortality improvements might be appropriate. Alternatively, the surviving population may be in better health than those dying from Covid-19, meaning that that we might expect remaining members to live slightly longer. For these disclosures, while the mortality assumption reflects more up-to-date information, the principles underlying the setting of the assumptions have remain unchanged.

Pension expense included in the consolidated income statement

	2020 £m	2019 £m
Defined contribution scheme	**109.0**	108.2
Defined benefit schemes		
Current service cost	**6.2**	7.0
Administration costs	**3.7**	3.9
Past service cost	**0.1**	0.3
Effect of settlements	**3.1**	—
Total charged to profit before tax	**122.1**	119.4
Interest cost	**3.2**	4.4
Total in the consolidated income statement	**125.3**	123.8

At 31 December 2020, retirement obligations were disclosed in relation to 10 (2019: 11) defined benefit pension schemes. The main defined benefit scheme is the Capita Pension and Life Assurance Scheme.

The Capita Pension and Life Assurance Scheme (CPLAS)
CPLAS is the Group's main defined benefit scheme, which closed to future accrual for most members in 2017 (with around 300 members continuing to accrue benefits). On 31 March 2020, the Group's segregated section of a multi-employer scheme (the Water Associated Employers Pension Scheme (WAEPS)) was merged into the CPLAS. The CPLAS currently represents around 96% of total defined benefit obligations of the Group totalling £1,810.6m (2019: £1,623.8m including WAEPS). The CPLAS has plan assets of £1,568.8m (2019: £1,378.1m including WAEPS) and a net liability of £241.8m (2019: £245.7m including WAEPS). Events have occurred in the CPLAS that has led to the income statement being remeasured during the year.

Responsibility for the operation and governance of the CPLAS lies with a corporate Trustee which is independent of the Group. The Trustee Board is required by law to act in the interest of the CPLAS's beneficiaries in accordance with the rules of the CPLAS and relevant legislation (which includes the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). The nature of the relationship between the Group and the Trustee Board is also governed by the rules of the CPLAS and relevant legislation. The Trustee Board is chaired by an independent Trustee.

The assets of the CPLAS are held in a separate fund (administered by the Trustee Board) to meet long-term pension liabilities to beneficiaries. The Trustee Board invest the assets in line with their Statement of Investment Principles, which is regularly reviewed.

A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the Trustee Board, with the last full actuarial valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the CPLAS has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Group.
The 31 March 2017 actuarial valuation showed a funding deficit of £185.0m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%).

Section 5: Employee benefits continued

5.2 Pensions continued

As a result of the funding valuation, the Group and the Trustee Board agreed the following plan to eliminate the deficit:

	2018	2019	2020	2021
Deficit contribution	£42.0m	£71.0m	£59.0m	£4.0m

During 2020, the Group and the Trustee Board agreed to defer a deficit payment of £31.7m due in 2020 to 2021 (which was subsequently paid in February 2021). In addition, following the merger of WAEPS in the CPLAS, deficit contributions due to WAEPS were paid into the CPLAS (£0.7m in 2020).

As part of the Funding Agreement put in place between the Trustee Board and the Group, additional monthly contributions of £4.16m were triggered from July 2020 until the 31 March 2020 valuation is finalised (expected Q2 2021). The Trustee Board and the Group have agreed that these contributions would be paid into an escrow account (instead of the scheme), with the escrow account being released to the scheme in 2021.

The next full actuarial valuation is being carried out with an effective date of 31 March 2020 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. For the purpose of these accounts, an independent qualified actuary projected the results of the 31 March 2020 funding assessment, currently in progress, to 31 December 2020 taking account of the relevant accounting requirements.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The most recent of these, at 31 March 2019, showed a funding level of 96% (31 March 2018: 87%).

In 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the Partnership) with the CPLAS. Under this arrangement, intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The CPLAS's interest in the Partnership entitles it to an annual distribution of £8.0m for 15 years from inception.

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the Partnership are not required to be, and have not been, filed at Companies House.

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the CPLAS's deficit position presented in these accounts does not reflect the CPLAS's interest in the Partnership. Accordingly, distributions from the Partnership to the CPLAS are reflected in these Group accounts as pension contributions to the CPLAS on a cash basis as paid.

At 31 December 2020, the CPLAS's interest in the Partnership ceased and in return the CPLAS received a special contribution of £50.1m in February 2021.

Subject to the outcome of the 31 March 2020 full actuarial valuation, the Group expects to contribute around £145m to the CPLAS over 2021.

Other defined benefit schemes
The total employer contributions to the 'Other' schemes for 2021 are estimated to be £7m.

Admitted Body arrangement
For the Admitted Body scheme, under which benefits continued to accrue until the contract ceased on 16 January 2020. The Group was required to pay regular contributions as decided by the Scheme Actuary and as detailed in the scheme's Schedule of Contributions. In addition, the Group will be required to pay any deficit (as determined by the Scheme Actuary) that is remaining at the end of the contract. We expect the deficit contribution to be quantified in the first half of 2021, with this amount estimated to be up to £0.6m. When payment is made this will settle the Group's liability to the Admitted Body scheme. In respect of this, the Group is carrying a sufficient level of provision in these financial statements.

Allocated section of a Local Government Pension Scheme
For the allocated section of a Local Government Pension Scheme, under which benefits continued to accrue until the last contributing member ceased to be an active member on 25 July 2020. The Group was required to pay regular contributions as decided by the Scheme Actuary and as detailed in the scheme's Schedule of Contributions. The latest full actuarial valuation (at 31 March 2019) showed there was a surplus on an ongoing basis and therefore no deficit contributions were required over to the period to 25 July 2020. However, an exit debt was triggered on 25 July 2020 (when the last contributing member ceased to be an active member), and this was calculated by the Scheme Actuary to be £4.3m. When payment is made this will settle the Group's liability to the allocated section of a Local Government Pension Scheme. In respect of this, the Group is carrying a sufficient level of provision in these financial statements. There is no cross subsidy with other employer sections.

Other UK schemes
- Three segregated sections in an industry-wide scheme where benefits are continuing to accrue for only one of these sections. The latest full actuarial valuations (at 31 December 2018) showed that two of these sections were in surplus and therefore no deficit contributions were required. The third section showed a small deficit but the Trustees agreed that no deficit contributions would be required. There is no cross subsidy with other employer sections.
- Participation in a non-associated multi-employer scheme under which defined benefits are not continuing to accrue. The latest full actuarial valuation (at 30 September 2017) resulted in the Group requiring to pay deficit contributions of £0.4m pa until 2026. If the Group were to cease to be a participating employer in this scheme there would be an exit debt payable. At 30 September 2017, this was estimated at £11.9m.

Overseas defined benefit schemes
The Group is responsible for an Irish defined benefit scheme which is classed as a cross-border scheme where the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in euro. The scheme is governed under UK regulations and subject to the further requirements applying to cross-border schemes. There are two segregated sections in the scheme. The latest full actuarial valuation (at 31 March 2020) showed a funding surplus for the main section and therefore no deficit contributions required for that section; and a small funding deficit for the other section requiring a deficit contribution of £8k to be paid by 31 January 2021. There are no members left accruing benefits.

The Group is also responsible for two Swiss schemes that provide defined contribution benefits but with certain guarantees (and are therefore reported as defined benefit schemes under IAS19). They are administered and governed through collective foundations which are separate legal entities. Benefits are continuing to accrue in these schemes.

Section 5: Employee benefits continued

5.2 Pensions continued

Additional defined benefit schemes
There are a further 47 (2019: 48) defined benefit pension arrangements in which various Capita businesses have participated during 2020. 41 (2019: 43) of these arrangements relate to participation in funded and unfunded public sector schemes (referred to as Admitted Body Arrangements as described above) however contractual protections are in place allowing actuarial and investment risk to be passed on to the end customer via recoveries for contributions paid. The nature of these arrangements vary from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments (for funded schemes) payable to the schemes at the cessation of the contract, such that the Group's net exposure to actuarial and investment risk is immaterial.

It is estimated that around £10.5m of employer contributions were paid to these 47 schemes during 2020.

Judgement is required in determining the appropriate accounting treatment for the participation in all of the above schemes, in particular as to whether actuarial and investment risk fall in substance on the Group. It is considered that the net risk to the Group from these defined benefit arrangements is immaterial and therefore the costs in relation to all of the above schemes have been included in the defined contribution pension charge and no amounts are recognised on the Group's balance sheet.

Risks associated with the Group's pension schemes
These defined benefit pension schemes expose the Group to various risks, with the key risks set out below:

Investment risk: the schemes invest in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the schemes.

Interest rate risk: the IAS 19 discount rate is derived based on the yields available on good quality corporate bonds of suitable duration. If these yields decrease then, in isolation, this would increase the value placed on the IAS 19 obligation and result in a worsening of the funding position of the schemes.

Inflation risk: the liabilities of the schemes are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the schemes.

Longevity risk: if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the schemes.

In order to manage these risks, the Group and the trustees carry out regular assessments of these risks. For CPLAS, the main defined benefit scheme the following actions have been taken:

- The CPLAS Trustee Board has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members (one in 2015 and the second in late 2017) with total value included in the assets at 31 December 2020 of £73.6m (2019: £70.9m).
- The CPLAS Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this is set by various market-related and funding trigger points.

Together, these actions have led to a current level of hedging (interest rate and inflation) of around 90% of CPLAS's liabilities measured on the Trustee Board's medium-term funding basis. As the funding level improves it is planned to further increase the level of hedging.

The hedging aims to match the value of the assets to the movement in liabilities arising from changes in market expectations of future inflation rates and future gilt yields. This is to help protect and reduce volatility in funding valuations which are used to determine the cash contribution requirements to the scheme. As these accounting disclosures use the yields available on corporate bonds to determine the accounting liabilities, the hedging may not have the same impact against changes as they do on a funding valuation. Over 2020, the yields available on long dated corporate bonds have fallen broadly in line with long dated gilt yields. This means that the hedge has broadly had the same impact on the funding position of the scheme and the accounting disclosures.

As part of this strategy and to retain exposure to growth assets, the CPLAS Trustee Board invest in derivatives to gain synthetic equity exposure. Therefore, the equity allocation shown below is in economic exposure terms (ie inclusive of the derivative-based position).

To illustrate how sensitive the value of the defined benefit obligations are to different market conditions, the below table shows how much they would increase if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2020 actuarial assumptions	Group Total £m
0.1% pa decrease in discount rate	39.5
0.1% pa increase in salary increases	0.6
0.1% pa increase in inflation (and related assumption, eg salary and pension increases)	22.2
1 year increase in life expectancy	74.4

Assets and liabilities
Under IAS19, plan assets must be valued at the fair value at the balance sheet date. The plan assets are made up of quoted and unquoted investments, and asset valuations have been sourced from the respective scheme's investment managers and custodians, based on their pricing sources and methodologies. Unquoted investments require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date.

For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.

Section 5: Employee benefits continued

5.2 Pensions continued

- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.
- Assets in investment funds are valued at fair value which is typically the net asset value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
- The value of bulk annuity contracts have been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS19 assumptions.

The assets and liabilities of all of the defined benefit pension schemes (excluding additional voluntary contributions) at 31 December are:

						Group total
			2020			2019
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Scheme assets at fair value:						
Equities:						
– UK	1.1	23.2	24.3	4.2	26.3	30.5
– Overseas	4.6	189.8	194.4	93.9	219.6	313.5
– Private	—	—	—	—	0.6	0.6
	5.7	213.0	218.7	98.1	246.5	344.6
Debt securities:						
– UK Government	760.3	0.2	760.5	638.5	—	638.5
– UK Corporate	1.2	7.5	8.7	1.6	—	1.6
– Overseas Government	2.4	52.9	55.3	43.7	3.7	47.4
– Overseas Corporate	68.8	135.4	204.2	77.2	62.8	140.0
– Emerging Markets	0.6	31.5	32.1	0.7	31.7	32.4
– Private Debt	—	71.3	71.3	—	63.1	63.1
– Secured Loans	—	—	—	1.6	—	1.6
	833.3	298.8	1,132.1	763.3	161.3	924.6
Property	4.2	89.6	93.8	4.6	89.4	94.0
Infrastructure	0.9	—	0.9	1.3	—	1.3
Credit Funds	5.3	—	5.3	9.4	—	9.4
Asset Backed Securities	—	—	—	0.9	—	0.9
Hedge Funds	16.5	131.0	147.5	49.5	122.0	171.5
Absolute Return Funds	0.7	—	0.7	0.6	—	0.6
Diversified growth funds	3.9	—	3.9	5.4	—	5.4
Insurance Contracts	—	91.9	91.9	—	88.5	88.5
Cash	(70.8)	5.0	(65.8)	(198.5)	(3.7)	(202.2)
Other	—	1.2	1.2	2.4	3.5	5.9
	(39.3)	318.7	279.4	(124.4)	299.7	175.3
Total	799.7	830.5	1,630.2	737.0	707.5	1,444.5
Present value of scheme liabilities			(1,882.3)			(1,697.0)
Net liability			(252.1)			(252.5)

The total net liability that relates to other defined benefits schemes that is included in the table above is £10.3m (2019: £19.6m). Within this net liability, some schemes are in surplus which offsets this amount by £3.1m (2019: £4.1m).

These amounts do not include any directly owned financial instruments issued by the Group.

IFRIC 14
The Group has considered the impact of IFRIC 14 on the various schemes (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on the interpretation of the rules for each of the schemes, that IFRIC 14 would not limit the surplus or increase the deficits shown at this balance sheet date.

Reconciliation of retirement benefits
Explanation of constituents of the consolidated income statement.

The cost of providing the pension scheme over the year is broken down as follows:

- Service cost is the cost to the Group of future benefits earned by contributing members over the current financial period.
- Past service cost represents the change in the present value of scheme liabilities in the current period in relation to prior years' service.
- Administration costs are those entailed by the pension schemes over the current period.
- Interest cost/(income) is made up of the interest cost on pension liabilities and assets over the current period based on the discount rate adopted at the start of the period.

Section 5: Employee benefits continued

5.2 Pensions continued

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 January	**1,697.0**	1,430.5	**(1,444.5)**	(1,211.5)	**252.5**	219.0
Included in the consolidated income statement:						
Current service cost	**6.2**	7.0	**—**	—	**6.2**	7.0
Administration costs	**3.7**	3.9	**—**	—	**3.7**	3.9
Past service cost	**0.1**	0.3	**—**	—	**0.1**	0.3
Effect of settlements	**(15.3)**	—	**18.4**	—	**3.1**	—
Interest cost/(income)	**30.1**	40.2	**(26.9)**	(35.8)	**3.2**	4.4
Sub-total in consolidated income statement	**24.8**	51.4	**(8.5)**	(35.8)	**16.3**	15.6
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(12.9)**	6.3	**—**	—	**(12.9)**	6.3
– financial assumptions	**256.3**	212.8	**—**	—	**256.3**	212.8
– experience adjustments	**(40.3)**	24.2	**—**	—	**(40.3)**	24.2
– reclassification of schemes[1]	**—**	14.1	**—**	(11.6)	**—**	2.5
Return on plan assets excluding interest	**—**	—	**(171.0)**	(139.1)	**(171.0)**	(139.1)
Sub-total in other comprehensive income	**203.1**	257.4	**(171.0)**	(150.7)	**32.1**	106.7
Employer contributions	**—**	—	**(49.0)**	(88.8)	**(49.0)**	(88.8)
Contributions by employees	**1.4**	1.4	**(1.4)**	(1.4)	**—**	—
Benefits paid	**(45.6)**	(43.1)	**45.6**	43.1	**—**	—
Exchange movement	**1.6**	(0.6)	**(1.4)**	0.6	**0.2**	—
At 31 December	**1,882.3**	1,697.0	**(1,630.2)**	(1,444.5)	**252.1**	252.5

1. It is now possible to identify, on a consistent and reasonable basis, the share of assets and liabilities belonging to the Group in respect of its participation in the non-associated multi-employer scheme. The scheme was brought on to the defined benefit balance sheet at 1 January 2019 (net liability at that date of £2.5m). Previously it was accounted for on a defined contribution basis.

The defined benefit obligation comprises £1,882.3m (2019: £1,697.0m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £16.3m (2019: £15.6m), £9.4m (2019: £7.3m) was included in cost of sales, £3.7m (2019: £3.9m) was included in administrative expenses, and £3.2m in finance costs (2019: £4.4m).

Breakdown of liabilities for the CPLAS
Information about the defined benefit obligation for the CPLAS:

	Proportion of overall liability %	Duration (years)	Proportion of overall liability %	Duration (years)
	2020	2020	2019	2019
Active members	**5**	**22.4**	6	23.9
Deferred members	**64**	**24.2**	62	23.3
Pensioners	**31**	**13.7**	32	13.4
Total	**100**	**20.9**	100	20.2

Section 5: Employee benefits continued

5.2 Pensions continued

Financial and demographic assumptions

Main assumptions[1]:	All schemes 2020 %	2019 %
Rate of price inflation – RPI/CPI	**2.90/2.15**	3.00/2.00
Rate of salary increase	**2.90**	3.00
Rate of increase of pensions in payment[2]:		
– RPI inflation capped at 5% per annum	**2.85**	2.95
– RPI inflation capped at 2.5% per annum	**2.10**	2.10
– CPI inflation capped at 5% per annum	**2.20**	2.05
Discount rate	**1.30**	2.05
Expected take up maximum available tax free cash	**85.00**	85.00

1. Only the discount rate is relevant to the Admitted Body Scheme. Different assumptions apply to non-UK schemes, for example: the discount rate for the Irish Schemes are 0.75% per annum and for the Swiss schemes it is 0.15% per annum in 2020.
2. There are other levels of pension increase which apply to particular periods of membership.

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2020 and 31 December 2019 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2020	2019	2020	2019	2020	2019	2020	2019
Capita Scheme[1]	**22.5**	22.7	**24.3**	24.2	**22.4**	23.1	**25.3**	25.2
Other Schemes[2]	**21.5 to 22.8**	22.7 to 24.2	**23.3 to 24.9**	24.2 to 24.8	**22.4 to 24.6**	23.1 to 25.9	**24.5 to 26.6**	25.2 to 26.2

1. The assumptions used for the Capita scheme are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future. The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.
2. This does not apply to the Admitted Body Scheme or the allocated section of a Local Government Pension Scheme.

5.3 Employee benefit expense

AP Accounting policies

Government grants
Government grants are not recognised until there is a reasonable assurance that they Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the income statement in the period in which they become receivable.

	Notes	2020 £m	2019 £m
Wages and salaries		**1,511.7**	1,626.8
Social security costs		**154.6**	170.7
Pension costs	5.2	**122.1**	119.4
Share-based payments	5.1	**6.4**	3.0
		1,794.8	1,919.9

During the year, the Group furloughed employees unable to work as a result of the Covid-19 pandemic, and applied to the Coronavirus Job Retention Scheme (CJRS) operated by the UK Government. Amounts received under CJRS are treated as a government grant and deducted from the relevant cost in the consolidated income statement. During the year, the Group received £21.3m under CJRS. These amounts are included within the relevant cost headings in the table above.

The aggregate amount of directors' remuneration (salary, bonus and benefits) is shown on page 102 of the directors' remuneration report.

- The aggregate amount of gains made by directors on exercise of share options was £49,569 (2019: £nil) (refer to note 6.1).
- The remuneration of the highest paid director was £1,112,325 (2019: £789,678).
- Payments have been made to a defined contribution pension scheme on behalf of four directors (2019: four directors). For the highest paid director, pension contributions of £36,250 (2019: £36,250) were made.

The average number of employees during the year was made up as follows:	2020 Number	2019 Number
Sales	**1,661**	2,162
Administration	**3,962**	5,801
Operations	**52,702**	55,322
	58,325	63,285

The average number of employees above reflects continuing operations and excludes employees relating to discontinued operations.

Section 6: Other supporting notes

This section includes disclosures of those items that are not explained elsewhere in the financial statements.

In this section you will find disclosures about:

6.1 Related-party transactions
6.2 Contingent liabilities
6.3 Post balance sheet events

AP **Denotes accounting policies**

6.1 Related-party transactions

Compensation of key management personnel

	2020 £m	2019 £m
Short-term employment benefits	**6.9**	9.3
Pension	**—**	0.2
Share-based payments	**3.5**	2.6
	10.4	12.1

Gains on share options exercised in the year by Capita plc executive directors were £49,569 (2019: £nil) and by key management personnel £38,050 (2019: £104,960), totalling £87,619 (2019: £104,960).

During the year, the Group rendered administrative services to Smart DCC Limited (DCC), a wholly-owned subsidiary which is not consolidated (refer to note 4.7). The Group received £113.1m (2019: £83.4m) of revenue for these services. The services are procured by DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 5.2 – Pensions.

6.2 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £55.8m (2019: £58.1m).

In September 2020, the Group settled a liability relating to past services received under supplier software licence agreements which had previously been disclosed as a contingent liability. The settlement includes a commitment to future purchases of £79m of which £6m is over the period to 31 December 2021 and £73m (payable in US dollars), is over the period to 30 June 2024. The Group has forecasts that support the requirement for such products and services. These products are important in supporting the delivery of future performance obligations and digital solutions for our customers and will benefit the Group.

The Group is in discussions with a number of its life insurance clients, the outcomes and timings of which are uncertain but could result in the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets. As the outcome of these discussions is uncertain, the Group has not made any provision for a future outflow of funds that might result from the eventual outcome of the discussions.

As outlined in note 3.6, a provision was recognised for an onerous contract in Customer Management. The contract has a clause such that the customer can continue to extend the contract indefinitely. Accordingly, judgement is required in assessing the remaining length of the contract to determine the provision. Management considered previous discussions with the client regarding their intentions and experiences on other contracts, and concluded the best estimate of the remaining contract term is the current contractually committed period to 2023. However, the contract may end earlier or be extended for longer, resulting in a material release or increase in the provision in future accounting periods.

The Group completed the disposal of its Capita Asset Services businesses, including Capita Financial Managers Limited, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, provided an indemnity against certain legacy claims.

The Group's entities are parties to legal actions and claims which arise in the normal course of business. The Group needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group's entities heightens the risk that not all potential claims are known at any point in time. Under the transformation plan, the central support functions including commercial and legal are being strengthened and a Chief General Counsel has been appointed. This enhances the processes to assess the likelihood of historical claims arising.

Section 6: Other supporting notes (continued)

6.3 Post balance sheet events

The following events occurred after 31 December 2020, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2020 financial results:

Disposal of Education Software Solutions (ESS)
The disposal of the ESS business to Tiger UK Bidco Limited, a newly formed company established by funds advised by Montagu Private Equity (Montagu), completed on 1 February 2021.

Cash proceeds of £298.5m were received, with net assets disposed of £51.8m, and estimated disposal costs of £28.9m (of which £20.6m were recognised at 31 December 2020). Consequently, we expect to record a total gain on disposal of approximately £217.8m.

Montagu has also agreed to invest in ParentPay (Holdings) Limited (ParentPay), a provider of education technology. Following successful completion of both investments, ESS will become part of ParentPay Group. An additional sum of £45m will subsequently be payable to Capita once Montagu's agreed investment in ParentPay has achieved regulatory approval.

Royal Navy training contract
Capita signed a contract to provide training services to the Royal Navy and Royal Marines in January 2021. Capita will transform and modernise the Royal Navy's shore-based training across 16 sites in the UK as the lead partner in a consortium which includes Raytheon UK, Elbit Systems UK, Fujitsu and several smaller British suppliers. The contract will be worth an estimated £1.0bn for Capita over 12 years, with opportunities to deliver further training according to the Royal Navy's requirements. This is an addition of £0.9bn to the Group's order book in 2021.

Put option expiry
The Group has a 51% interest in AXELOS Limited. There was a put option in place whereby the Group could be required to acquire the 49% non-controlling interest. This option expired without being exercised on 28 February 2021, and the related liability was derecognised.

Section 7: Company financial statements

This section presents the company only financial statements for Capita plc (the Company). In this section, you will find the following:

7.1 Company balance sheet
7.2 Company statement of changes in equity
7.3 Notes to the Company financial statements

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

7.1 Company balance sheet

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	7.3.2	**89.1**	91.9
Tangible assets	7.3.3	**14.7**	39.0
Investments	7.3.4	**683.3**	568.9
Financial assets	7.3.5	**35.4**	67.0
Deferred tax assets	7.3.6	**10.0**	6.8
Prepayments and accrued income		**1.8**	2.2
		834.3	775.8
Current assets			
Financial assets	7.3.5	**28.3**	21.5
Amounts owed by subsidiary undertakings		**2,946.9**	2,598.8
Trade and other receivables	7.3.7	**2.5**	10.0
Prepayment and accrued income		**6.1**	8.5
Income tax receivable		**64.1**	63.6
Cash		**1.6**	2.6
		3,049.5	2,705.0
Total assets		**3,883.8**	3,480.8
Current liabilities			
Amounts owed to subsidiary undertakings		**2,003.9**	1,588.9
Trade and other payables	7.3.8	**13.6**	20.7
Accruals and deferred income		**11.6**	26.8
Overdrafts		**131.9**	24.3
Financial liabilities	7.3.5	**3.4**	1.7
Provisions	7.3.9	**17.3**	15.2
		2,181.7	1,677.6
Non-current liabilities			
Trade and other payables	7.3.8	**0.3**	—
Borrowings	7.3.10	**214.8**	202.9
Financial liabilities	7.3.5	**4.1**	5.3
		219.2	208.2
Total liabilities		**2,400.9**	1,885.8
Net assets		**1,482.9**	1,595.0
Capital and reserves			
Issued share capital	7.3.11	**34.5**	34.5
Employee benefit trust and treasury shares	7.3.11	**(11.2)**	(11.2)
Share premium	7.3.11	**1,143.3**	1,143.3
Capital redemption reserve		**1.8**	1.8
Merger reserve		**44.6**	44.6
Cash flow hedging reserve		**(4.6)**	—
Retained earnings		**274.5**	382.0
Total equity		**1,482.9**	1,595.0

The Company's loss after taxation was £113.9m (2019: £211.9m loss).

The accompanying notes form part of the financial statements.

The accounts were approved by the Board of directors on 16 March 2021 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Gordon Boyd
Chief Financial Officer (interim)

Company registered number: 02081330

Section 7: Company financial statements continued

7.2 Company statement of changes in equity

	Share capital £m	Employee benefit trust and treasury shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2019	34.5	(11.2)	1,143.3	1.8	44.6	0.8	591.8	1,805.6
Loss for the year	—	—	—	—	—	—	(211.9)	(211.9)
Other comprehensive expense	—	—	—	—	—	(0.8)	—	(0.8)
Total comprehensive expense for the year	—	—	—	—	—	(0.8)	(211.9)	(212.7)
Share based payment	—	—	—	—	—	—	2.8	2.8
Shares purchased	—	—	—	—	—	—	(0.7)	(0.7)
At 1 January 2020	34.5	(11.2)	1,143.3	1.8	44.6	—	382.0	1,595.0
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(113.9)**	**(113.9)**
Other comprehensive expense	**—**	**—**	**—**	**—**	**—**	**(4.6)**	**—**	**(4.6)**
Total comprehensive expense for the year	**—**	**—**	**—**	**—**	**—**	**(4.6)**	**(113.9)**	**(118.5)**
Share based payment	**—**	**—**	**—**	**—**	**—**	**—**	**6.4**	**6.4**
At 31 December 2020	**34.5**	**(11.2)**	**1,143.3**	**1.8**	**44.6**	**(4.6)**	**274.5**	**1,482.9**

1. Capita is currently undergoing a multi-year transformation and therefore did not declare a dividend in 2020 or 2019.

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2 1/15p ordinary shares.

Employee benefit trust and treasury shares – Shares that have been bought back by the Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Merger reserve – The merger reserve arose from the adoption of the exemption under section 131 of the Companies Act not to set up a share premium account in respect shares issued for the acquisition of entities. The amounts attributed to the shares issued for these acquisitions that exceeded their nominal value was transferred to the merger reserve.

Cash flow hedging reserves – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow that is determined to be an effective hedge.

Retained deficit – Net (losses)/profits accumulated in the Company after dividends are paid.

The accompanying notes are an integral part of the financial statements.

Section 7: Company financial statements continued

7.3 Notes to the Company financial statements

7.3.1 Accounting policies

AP **Accounting policies**

Basis of preparation
In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework (FRS 101) as issued by the Financial Reporting Council. The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in Sections 1 to 6 of the consolidated financial statements, except as noted below.

(a) Investments
Fixed asset investments are shown at cost, less provisions for impairment. The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

J **Significant accounting judgements, estimates and assumptions**

The Company determines whether investments are impaired based on impairment indicators. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of investments held by the investee Company.

(b) Pension schemes
The Company participates in a number of defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking, which pays the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of that company.

The Company also has employees who are members of a defined benefit scheme operated by the Group – the Capita Pension & Life Assurance Scheme (the 'Capita DB Scheme').

As there is no contractual arrangement or stated Group policy for charging the net defined benefit cost of the Capita DB Scheme to participating entities, the net defined benefit cost is recognised fully by the principal employer, which is Capita Business Services Limited, a subsidiary undertaking. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined on the following basis:

The Capita DB Scheme provides benefits on a defined benefit basis funded from assets held in a separate trustee-administered fund.

- The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the Scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees.
- At each funding assessment of the Capita DB Scheme (carried out triennially), the contribution rates for those sections containing active members are calculated. These are then rationalised such that sections with similar employer contribution rates (when expressed as a percentage of pensionable pay) are grouped together and an average employer contribution rate for each of the rationalised groups calculated.
- The Company's contribution is consequently calculated by applying the appropriate average employer contribution rates to the pensionable pay of its employees participating in the Capita DB Scheme.

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Group. The 31 March 2017 actuarial valuation showed a funding deficit of £185.0m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%). Following the last full valuation carried out at 31 March 2017, the principal employer agreed to make additional contributions to the Capita DB Scheme totalling £176.0m over the period from November 2018 to the start of 2021 to address the deficit.

During 2020, the principal employer and the Trustee Board agreed to defer a deficit payment of £31.7m due in 2020 to 2021 (which was subsequently paid in February 2021). In addition, following the merger of WAEPS in the Capita DB Scheme, deficit contributions due to WAEPS were paid into the Capita DB Scheme (£0.7m in 2020).

As part of the Funding Agreement put in place between the Trustee Board and the principal employer, additional monthly contributions of £4.16m were triggered from July 2020 until the 31 March 2020 valuation is finalised (expected Q2 2021). The Trustee Board and the principal employer have agreed that these contributions would be paid into an escrow account (instead of the scheme), with the escrow account being released to the scheme in 2021. The next full actuarial valuation is being carried out with an effective date of 31 March 2020 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended.

Note 5.2 of the Group's consolidated financial statements sets out more detail.

Section 7: Company financial statements continued

7.3.1 Accounting policies continued

(c) Share-based payments
Subsidiary undertakings of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share schemes.

(d) Amounts owed by/to subsidiary undertakings
The amounts owed by and to subsidiary undertakings are repayable on demand along with any accrued interest.

7.3.2 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
At 1 January 2020	82.2	29.3	111.5
Additions	**5.0**	**—**	**5.0**
Retirement	**—**	**(0.1)**	**(0.1)**
At 31 December 2020	**87.2**	**29.2**	**116.4**
Amortisation			
At 1 January 2020	13.8	5.8	19.6
Charge for year	**5.5**	**2.3**	**7.8**
Retirement	**—**	**(0.1)**	**(0.1)**
At 31 December 2020	**19.3**	**8.0**	**27.3**
Net book value:			
At 1 January 2020	68.4	23.5	91.9
At 31 December 2020	**67.9**	**21.2**	**89.1**

Other intangibles relates to software purchased from third parties. Refer to note 3.3 to the Group's consolidated financial statements for further information on the Group's finance transformation program.

7.3.3 Tangible assets

	Computer equipment £m	Short-term leasehold improvements £m	Equipment right-of-use asset £m	Total £m
Cost				
At 1 January 2020	23.1	21.0	0.4	44.5
Additions	**1.0**	**5.6**	**—**	**6.6**
Disposals	**(1.0)**	**(1.3)**	**—**	**(2.3)**
Intragroup transfer	**(2.4)**	**(23.4)**	**—**	**(25.8)**
Asset retirements	**(0.6)**	**(0.2)**	**—**	**(0.8)**
At 31 December 2020	**20.1**	**1.7**	**0.4**	**22.2**
Depreciation				
At 1 January 2020	3.9	1.5	0.1	5.5
Charge for year	**4.4**	**1.1**	**0.1**	**5.6**
Impairment	**0.6**	**1.0**	**—**	**1.6**
Disposals	**(0.9)**	**(1.2)**	**—**	**(2.1)**
Intragroup transfer	**(0.4)**	**(1.9)**	**—**	**(2.3)**
Asset retirements	**(0.6)**	**(0.2)**	**—**	**(0.8)**
At 31 December 2020	**7.0**	**0.3**	**0.2**	**7.5**
Net book value:				
At 1 January 2020	19.2	19.5	0.3	39.0
At 31 December 2020	**13.1**	**1.4**	**0.2**	**14.7**

Section 7: Company financial statements continued

7.3.4 Investments

	Shares in subsidiary undertakings £m
Net book value	
At 1 January 2020	568.9
Additions[1]	**114.9**
Impairment[2]	**(0.5)**
At 31 December 2020	**683.3**

1. During the year ended 31 December 2020, Capita plc invested £86.0m in Capita Employee Benefits Limited and £28.9m in Capita Financial Services Holdings Limited.
2. During the year ended 31 December 2020, Capita plc impaired its investment in Capita Gwent Consultancy Limited by £0.5m.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Employee Benefits Limited[2]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Legal Services Limited[2]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Financial Services Holdings Limited[1]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Group Insurance PCC Limited[2]	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT, Guernsey	100%
Capita Gwent Consultancy Limited[2]	1 More London Place, London, SE1 2AF	100%
Capita Holdings Limited[1]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Limited[2]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Life & Pensions Regulated Services Limited[2]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Retirement Benefit Scheme Trustees Limited[2]	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Ireland Limited[2]	2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01P767	100%
Capita Life & Pensions Services Limited[2]	65 Gresham Street, London, England, EC2V 7NQ	100%

1. Investing holding company.
2. Outsourcing services company.

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and has been agreed to by the directors of those subsidiary entities. Listed in note 7.3.16 to the Company financial statements are subsidiaries controlled and consolidated by the Group, where the directors have taken advantage of the exemption from having an audit of the entities' individual financial statements for the year ended 31 December 2020 in accordance with Section 479A of The Companies Act 2006.

In order to facilitate the adoption of this exemption, Capita plc, the parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries.

Details of all indirect subsidiaries, as required under Section 409 of the Companies Act 2006, are reported in note 7.3.16 to the Company financial statements.

Section 7: Company financial statements continued

7.3.5 Financial instruments

	Financial assets 2020 £m	Financial liabilities 2020 £m	Financial assets 2019 £m	Financial liabilities 2019 £m
Cash flow hedges	**0.1**	**2.8**	3.4	0.5
Non-designated foreign exchange forwards and swaps	**2.9**	**1.7**	3.2	2.6
Lease liabilities	**—**	**0.3**	—	0.3
Interest rate swaps	**0.5**	**—**	1.0	—
Cross-currency interest rate swaps	**60.2**	**2.7**	80.9	3.6
	63.7	**7.5**	88.5	7.0
Analysed as:				
Current	**28.3**	**3.4**	21.5	1.7
Non-current	**35.4**	**4.1**	67.0	5.3
	63.7	**7.5**	88.5	7.0

7.3.6 Deferred tax

	2020 £m	2019 £m
Deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	**4.4**	2.6
Losses	**5.5**	4.2
Other short term timing differences	**0.1**	—
	10.0	6.8

7.3.7 Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**0.1**	0.2
Other debtors	**0.4**	1.0
Other taxes and social security	**2.0**	8.8
	2.5	10.0

7.3.8 Trade and other payables

	Current		Non-current	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade creditors	**12.8**	18.4	**—**	—
Other creditors	**0.8**	2.3	**0.3**	—
	13.6	20.7	**0.3**	—

7.3.9 Provisions

	2020 £m	2019 £m
At 1 January	**15.2**	28.4
Provisions provided for in the year	**5.9**	0.1
Provisions released in the year	**(3.4)**	(11.2)
Utilisation	**(0.4)**	(2.1)
At 31 December	**17.3**	15.2

The majority of the provisions relate to the claims and litigations provisions of £10.9m and business exit provisions of £5.7m. Further detail on these provisions can be found in note 3.6 to the Group's consolidated financial statements.

Section 7: Company financial statements continued

7.3.10 Borrowings

	2020 £m	2019 £m
Private placement loan notes	**214.8**	202.9
Repayments fall due as follows:		
In more than 2 years but not more than 5 years	**161.2**	152.6
In more than 5 years	**53.6**	50.3
Total borrowings	**214.8**	202.9

The Company issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)	Denomination	EUR (m)	Maturity
Fixed rate bearer notes	2.125	EUR	166.1	10 November 2022
Fixed rate bearer notes	2.875	EUR	60.0	10 November 2027
Schuldschein loan	2.125	EUR	16.0	10 November 2022
Total of euro denominated private placement loan notes			242.1	

The Company has a committed revolving credit facility (RCF) of £452.0m which expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. In addition to the RCF, the Company has committed backstop liquidity facilities of £150.0m. These facilities terminated on 1 February 2021 with receipt of proceeds from the disposal of the Education Software Solutions business.

All committed facilities were undrawn at 31 December 2020 (combined size £602.0m), and also at 31 December 2019 (£414.0m).

Further detail on these facilities can be found in note 4.2 to the Group's consolidated financial statements.

7.3.11 Share capital

Disclosures about the share capital, share premium, employee benefit trust and treasury shares of the Company have been included in note 4.6 to the Group's consolidated financial statements.

7.3.12 Contingent liabilities

The Company has provided, through the normal course of its business, performance bonds and bank guarantees of £55.8m (2019: £58.1m).

7.3.13 Related-party transactions

In the following, amounts for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year, the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £nil (2019: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2019: £nil). At the balance sheet date, the net amount receivable from Urban Vision Partnership Limited was £nil (2019: £nil).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.9m (2019: £0.3m). The Company purchased goods/services in the normal course of business for £0.1m (2019: £nil). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2019: £nil).

During the year, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.9m (2019: £0.3m). The Company purchased goods/services in the normal course of business for £0.3m (2019: £0.3m). At the balance sheet date, the net amount receivable from AXELOS Limited was £nil (2019: £0.1m).

During the year, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m (2019: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2019: £nil). At the balance sheet date, the net amount receivable from Capita Glamorgan Consultancy Limited was £nil (2019: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.3m (2019: £0.3m). The Company purchased goods/services in the normal course of business for £nil (2019: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £0.1m (2019: £nil).

7.3.14 Pension costs

The Company operates defined benefit and defined contribution schemes. The pension charge for these schemes for the year was £1.8m (2019: £1.4m).

7.3.15 Share-based payments

The Company operates several share-based payment plans and details of the schemes are disclosed in note 5.1 of the Group's consolidated financial statements.

The Group recognised an expense for share-based payments in respect of employee services received during the year to 31 December 2020 of £6.4m (2019: £3.0m), all of which arises from equity-settled share-based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the income statement in respect of share-based payments was £3.5m (2019: £2.1m).

Section 7: Company financial statements continued

7.3.16 Related undertakings

The stated address relates to the place of incorporation of the entity, which is the same as its tax residence in all cases other than Capita Group Insurance PCC Limited which is incorporated in Guernsey, but which is tax resident in the UK.

Unless otherwise indicated, all shareholdings are owned indirectly by the company and represent 100% of the issued share capital of the subsidiary. Dormant companies are marked (D).

Company name	Share class
3C DIALOG Saalfeld GmbH [24]	€25,000.00 Ordinary
Acutest Limited [6] (D)	£1.00 Ordinary
Akinika Debt Recovery Limited [7]	£1.00 Ordinary
Akinika Limited [7]	£1.00 Ordinary
Akinika UK Limited [7]	£1.00 Ordinary
AMT Group Limited [4]	€1.00 Ordinary
AMT-Sybex (I) Limited (in liquidation) [20]	€1.00 Ordinary
AMT-Sybex (Managed Services) Limited (in liquidation) [20]	€1.00 Ordinary
AMT-Sybex (Research) Limited (in liquidation) [20]	€1.00 Ordinary
AMT-Sybex (Software) Limited [4]	€1.00 Ordinary
AMT-Sybex Group Limited [4]	€0.0012 Ordinary
AMT-Sybex Limited [6]	£1.00 Ordinary
Artificial Labs Ltd [14] ●	£0.00 Ordinary A
Atlas Master Trust Trustee Limited [6]	£1.00 Ordinary
Axelos Limited [6] ▼	£0.01 Ordinary B
Barrachd Limited [3]	£1.00 Ordinary
BCS Design Ltd [6]	£1.00 Ordinary
Beovax Computer Services Limited (In liquidation) [1]	£1.00 Ordinary
Booking Services International Limited [6]	£1.00 Ordinary
Brentside Communications Limited [6] (D)	£1.00 Ordinary
Brightwave Enterprises Limited [6]	£1.00 Ordinary
Brightwave Holdings Limited [6]	£1.00 Ordinary
Brightwave Limited [6]	£1.00 Ordinary
BSI Group Limited [6]	£1.00 Ordinary
Call Centre Technology Limited (in liquidation) [1]	£1.00 Ordinary
Call Vision Technologies Ltd [6] (D)	£1.00 Ordinary
Capita (6588350) Limited [6]	£1.00 Ordinary
Capita (Banstead 2011) Limited (in liquidation) [1]	£1.00 Ordinary
Capita (D1) Limited [6] (D)	£1.00 Ordinary
Capita (Dubai FZ) Limited (in liquidtation) [28]	US$1,000.00 Ordinary
Capita (Polska) Spółka z ograniczoną odpowiedzialnością [16]	PLZ50.00 Ordinary
Capita (Real Estate & Infrastructure) Limited [6] (D)	£1.00 Ordinary
Capita (South Africa) (Pty) Limited [11]	ZAR1.00 Ordinary
Capita (USA) Holdings Inc. [10]	US$1.00 Ordinary
Capita Aurora Limited (in liquidation) [1]	£1.00 Ordinary
Capita Birmingham Limited [6]	£1.00 Ordinary
Capita Building Standards Limited (in liquidation) [1]	£1.00 Ordinary
Capita Business Services Ltd [6]	£1.00 Ordinary
Capita Business Support Services Ireland Limited [4]	€1.00 Ordinary
Capita Commercial Insurance Services Limited [6]	£1.00 Ordinary

Company name	Share class
Capita Corporate Director Limited [6] (D)	£1.00 Ordinary
Capita CTI (USA) LLC [10]	US$1.00 Ordinary
Capita Customer Management Limited [6]	£1.00 Ordinary
Capita Customer Services (Germany) GmbH [25]	€1.00 Ordinary
Capita Customer Services AG [26]	CHF1.00 Ordinary
Capita Customer Solutions (UK) Limited [6]	£1.00 Ordinary
Capita Customer Solutions Limited [42]	€1.00 Ordinary
Capita Cyprus Holdings Limited [40]	£1.00 Ordinary
Capita Cyprus Limited (Under Strike off) [40]	€1.00 Euro
Capita Dubai Limited [6]	£1.00 Ordinary
Capita Employee Benefits (Consulting) Limited [6]	£1.00 Ordinary
Capita Employee Benefits Holdings Limited [6]	£1.00 Ordinary
Capita Employee Benefits Limited [6] *	£1.00 Ordinary
Capita Energie Services GmbH [31] ►	€1.00 Ordinary
Capita ESS Limited [6]	£1.00 Ordinary
Capita ESS Holdings Limited [6]	£1.00 Ordinary
CAPITA 12935355 LIMITED [6] (D)	£1.00 Ordinary
Capita Financial Services Holdings Limited [6] *	£1.00 Ordinary
Capita Gas Registration and Ancillary Services Limited [6]	£1.00 Ordinary
Capita Glamorgan Consultancy Limited [6] ▼	£0.01 Ordinary A
Capita GMPS Trustees Limited [6] (D)	£1.00 Ordinary
Capita Grosvenor Limited [6] (D)	£1.00 Ordinary
Capita Group Insurance PCC Limited [19] *	£1.00 CG1 £1.00 CIC2 £1.00 Ordinary
Capita Group Limited [6] (D)	£1.00 Ordinary
Capita Group Secretary Limited [6] (D)	£1.00 Ordinary
Capita Gwent Consultancy Limited [1] (in liquidation) * ▼	£0.01 Preference A
Capita HCH Limited [6]	£1.00 Ordinary
Capita Health and Wellbeing Limited [6]	£1.00 Ordinary
Capita Health Holdings Limited [6]	£1.00 Ordinary
Capita Holdings Limited [6] *	£1.00 Ordinary
Capita IB Solutions (Ireland) Limited [4]	€1.00 Ordinary
Capita IB Solutions (UK) Limited (in liquidation) [1]	£1.00 Ordinary
Capita IB Solutions (HK) Limited [34]	HKD1.00 Ordinary A HKD1.00 Ordinary B
Capita India Private Limited [33]	INR10.00 Ordinary
Capita Insurance Services Group Limited [6]	£1.00 Ordinary
Capita Insurance Services Holdings Limited [6]	£1.00 Ordinary
Capita Insurance Services Limited [6]	£1.00 Ordinary
Capita International Limited [6] *	£1.00 Ordinary
Capita International Retirement Benefit Scheme Trustees Limited [6] * (D)	£1.00 Ordinary
Capita Ireland Limited [4] * (D)	€1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class
Capita IT and Consulting India Private Limited (in liquidation) [33]	INR10.00 Ordinary
Capita IT Services (BSF) Holdings Limited (in liquidation) [1]	£1.00 Ordinary
Capita IT Services (BSF) Limited [6]	£1.00 Ordinary
Capita IT Services Holdings Limited [6]	£1.00 Ordinary
Capita IT Services Limited [32]	£1.00 Ordinary
Capita Justice & Secure Services Holdings Limited [6]	£1.00 Ordinary
Capita Land Limited [6] (D)	£1.00 Ordinary
Capita Legal Services Limited [6] * (D)	£1.00 Ordinary
Capita Life & Pensions Regulated Services Limited [6] *	£1.00 Ordinary
Capita Life & Pensions Services Limited [6] *	£1.00 Ordinary
Capita Life and Pensions International Limited [6]	£1.00 Ordinary
Capita Life and Pensions Services (Ireland) Limited [30]	€1.27 Ordinary
Capita Life and Pensions Services (Isle of Man) Limited [17]	£1.00 Ordinary
Capita Managed IT Solutions Limited [23]	£1.00 Ordinary
Capita Managing Agency Limited [6]	£1.00 Ordinary
Capita Mclarens Limited [37]	£1.00 Ordinary
Capita Mortgage Administration Limited [6]	£1.00 Ordinary
Capita Mortgage Software Solutions Limited [6]	£1.00 Ordinary
Capita Norman + Dawbarn Limited [27] □ (D)	NGN1.00 Ordinary
Capita Offshore Services Private Limited (in liquidation) [33] *	INR10.00 Ordinary
Capita Property and Infrastructure (Structures) Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure Consultants LLC (in liquidation) [2] ◈(D)	AED1,000.00 Ordinary
Capita Property and Infrastructure Holdings Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure International Holdings Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure International Limited [6] (D)	£1.00 Ordinary
Capita Property and Infrastructure Limited [6]	£1.00 Ordinary
Capita Resourcing Limited [6]	£1.00 Ordinary
Capita Retail Financial Services Limited [6]	£1.00 Ordinary
Capita Scotland (Pension) Limited Partnership [32]	N/A
Capita Scotland General Partner (Pension) Limited [32]	£1.00 Ordinary
Capita Secure Information Solutions Limited [6]	£1.00 Ordinary
Capita Services (Isle of Man) Limited (in liquidation) [17]	£1.00 Ordinary
Capita SIMS (India) Private Limited [33]	INR10.00 Ordinary
Capita (SSS) Limited [6] (D)	£1.00 Ordinary
Capita Software (US) LLC [10]	N/A
Capita Southampton Limited [6]	£1.00 Ordinary
Capita Süd GmbH [25]	€1.00 Ordinary
Capita Symonds (Asia) Limited [6] (D)	£1.00 Ordinary
Capita Symonds India Private Limited [33]	INR10.00 Ordinary
Capita Symonds Property and Infrastructure Consultants (KSA) (D)	N/A
Capita Translation and Interpreting Limited [6]	£1.00 Ordinary
Capita Travel & Events Holdings Limited [6]	£1.00 Ordinary
Capita Travel and Events Limited [6]	£1.00 Ordinary
Capita West GmbH [25]	€25,000.00 Ordinary

Company name	Share class
CAS Services US Inc [18]	US$1.00 Ordinary
CCSD Services Limited [6]	£1.00 Ordinary
CHKS Limited [6]	£1.00 Ordinary
Clinical Solutions Acquisition Limited [6] (D)	£1.00 Ordinary
Clinical Solutions Finance Limited [6]	£1.00 Ordinary
Clinical Solutions Group (International) LLC	N/A
Clinical Solutions Holdings Limited [6] (D)	£1.00 Ordinary
Clinical Solutions International Limited [6]	£1.00 Ordinary
Clinical Solutions IP Limited [6] (D)	£1.00 Ordinary
CMGL Group Limited [6] (D)	£1.00 Ordinary
CMGL Holdings Limited [6] (D)	£1.00 Ordinary
Complete Imaging Limited (in liquidation) [1]	£1.00 Ordinary
Computerland UK Limited [6]	£1.00 Ordinary
Contact Associates Limited [6]	£1.00 Ordinary
CPLAS Trustees Limited [6] (D)	£1.00 Ordinary
Creating Careers Limited (in liquidation) [1]	£1.00 Ordinary
CS Clinical Solutions India Private Limited [33]	INR10.00 Ordinary
Cymbio Limited [6]	£1.00 Ordinary
Daisy Updata Communications Limited [29] ▲	£1.00 Ordinary B
Debt Solutions (Holdings) Limited [7]	£1.00 Ordinary
Dupree Holdings Limited (in liquidation) [20]	€1.00 Ordinary
Dragonfly Technology Solutions Ltd ○ [5]	£0.001 Ordinary
DSTBTD LIMITED [43] <	£0.001 Ordinary
E.B. Consultants Limited [6] (D)	£1.00 Ordinary
Electra-Net (UK) Limited [6]	£1.00 Ordinary
Electra-Net Group Limited [6] (D)	£1.00 Ordinary
Electra-Net Holdings Limited [6] (D)	£1.00 Ordinary
Emercom Ltd [6] (D)	£1.00 Ordinary
Entrust Education Services Limited (in liquidation) [1]	£1.00 Ordinary
Entrust Support Services Limited [39] ▼	£1.00 Ordinary X
Equita Limited [8]	£1.00 Ordinary
Equitable Holdings Limited [6] (D)	£1.00 Ordinary
Eureka Assessoria Empresarial Ltda [13] ◊ (D)	BRL1.00 Ordinary
Euristix (Holdings) Limited [6] (D)	£1.00 Ordinary
Euristix Limited [6]	£1.00 Ordinary
Evolvi Rail Systems Limited [6]	£1.00 Ordinary
Expotel Hotel Reservations Limited (in liquidation) [1]	£1.00 Ordinary
Fera Science Limited [6] ■	£1.00 Ordinary B
Fire Service College Limited [6]	£1.00 Ordinary
FirstAssist Services Limited [6]	£1.00 Ordinary
Fish Financial Solutions Limited (in liquidation) [1]	£1.00 Ordinary
FPS Group of Companies Limited (in liquidation) [1]	£1.00 Ordinary
Full Circle Contact Centre Services (Proprietary) Limited [11]	ZAR0.01 Ordinary
G L Hearn Limited [6]	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class
G L Hearn Management Limited [6]	£1.00 Ordinary
Gissings Trustees Limited [6] (D)	£1.00 Ordinary
Grosvenor Career Services Limited [6] (D)	£1.00 Ordinary
Health Analytics Ltd [6]	£1.00 Ordinary
International Travel Group Limited (in liquidation) [1]	£1.00 Ordinary
John Crilley Limited (in liquidation) [1]	£1.00 Ordinary
Knowledgepool Group Limited [6]	£1.00 Ordinary
Latemeetings.com Limited (in liquidation) [1]	£1.00 Ordinary
Leadcall Limited (in liquidation) [1]	£1.00 Ordinary
Level Financial Technology Limited [35] ◙	£1.00 Ordinary
Liberty Printers (Ar And Rf Reddin) Limited [6]	£1.00 Ordinary
Market Mortgage Limited [6] ◄	£0.001 Ordinary Capita Shares
Marrakech (Ireland) Limited (in liquidation) [20]	€1.00 Ordinary
Marrakech (U.K.) Limited [6]	£1.00 Ordinary
Marrakech Limited [4]	€1.00 Ordinary
Medicals Direct International Limited (in liquidation) [1]	£1.00 Ordinary
Metacharge Limited [6]	£1.00 Ordinary
Micro Librarian Systems Limited (in liquidation) [1]	£1.00 Ordinary
Munnypot Limited [38] >	£0.01 Ordinary
NYS Corporate Ltd. [6]	£1.00 Ordinary
Octal Business Solutions Limited [6]	£1.00 Ordinary
Opin Systems Limited (in liquidation) [12]	£1.00 Ordinary
Optilead Inc.(in liquidation) [10]	US$0.001 Common Stock
Optilead Limited [6] (D)	£1.00 Ordinary
Optima Legal Services Limited [22]	£1.00 Ordinary
PageOne Communications Limited [6]	£1.00 Ordinary
Pardus Holdings Limited [15] ~	£1.00 Ordinary
Pay360 Limited [6]	£1.00 Ordinary
Pervasive Limited [6]	£1.00 Ordinary
Pervasive Networks Limited [6]	£1.00 Ordinary
Rathcush Limited (in liquidation) [4]	€1.00 Ordinary
RE (Regional Enterprise) Limited [6] ▼	£1.00 Ordinary A
Retain International (Holdings) Limited [6] (D)	£1.00 Ordinary
Retain International Limited [6] (D)	£1.00 Ordinary
Ross & Roberts Limited [8]	£1.00 Ordinary
Sbj Benefit Consultants Limited [6] (D)	£1.00 Ordinary

Company name	Share class
Sbj Professional Trustees Limited [6] (D)	£1.00 Ordinary
SDP Regeneration Services 2 Limited [6]	£1.00 Ordinary
Security Watchdog Limited [6] (D)	£1.00 Ordinary
SIMS Limited [6]	£1.00 Ordinary
Smart DCC Limited [6]	£1.00 Ordinary
Stirling Park LLP [45]	N/A
Symonds Travers Morgan (Malaysia) SDN. BHD [36]	RM1.00 Ordinary
STL Technologies Limited (in liquidation) [1]	£1.00 Ordinary
Symonds Travers Morgan (Hong Kong) Limited [46] (D)	HKD10.00 Ordinary
Synaptic Software Limited [6]	£1.00 Ordinary
Synetrix (Holdings) Limited (in liquidation) [1]	£1.00 Ordinary
Synetrix Limited (in liquidation) [1]	£1.00 Ordinary
Tascor E & D Services Limited [6]	£1.00 Ordinary
Tascor Services Limited [6]	£1.00 Ordinary
TELAG AG [21]	CHF1,000.00 Ordinary
Tempus Finance Limited (in liquidation) [1]	£1.00 Ordinary
The Fisher Training Group Limited (in liquidation) [1]	£1.00 Ordinary
The G2G3 Group Ltd. [32]	£1.00 Ordinary
The Write Research Company Limited (in liquidation) [1]	£1.00 Ordinary
Thirty Three Group Limited [6] (D)	£1.00 Ordinary
Thirty Three LLP [6]	N/A
ThirtyThree APAC Limited [9]	HKD1.00 Ordinary
ThirtyThree USA Inc. [10]	US$1.00 Ordinary
Trustmarque Solutions Limited [6]	£1.00 Ordinary
Updata Infrastructure (UK) Limited [6]	£1.00 Ordinary
Updata Infrastructure 2012 Limited [6] (D)	£1.00 Ordinary
Urban Vision Partnership Limited [6] ►	£1.00 Ordinary B
Ventura (India) Private Limited [41]	INR10.00 Ordinary
Ventura (UK) India Limited [6]	£1.00 Ordinary
Venues Event Management Limited (in liquidation) [1]	£1.00 Ordinary
Vilanova Management Limited [4]	€1.00 Ordinary
Voice Marketing Limited [6]	£1.00 Ordinary
Wabowden Limited [4]	€1.00 Ordinary
Western Mortgage Services Limited [6]	£1.00 Ordinary
Westpoint Limited (in liquidation) [1]	£1.00 Ordinary
Woolf Limited [6]	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Footnotes

* Companies directly held by Capita plc.

~ Shareholdings owned indirectly by the company and represent 11.32 % of the issued share capital of subsidiary.

> Shareholdings owned indirectly by the company and represent 16.16 % of the issued share capital of subsidiary.

< Shareholdings owned indirectly by the company and represent 30.20% of the issued share capital of subsidiary.

● Shareholdings owned indirectly by the company and represent 22.72% of the issued share capital of subsidiary.

○ Shareholdings owned indirectly by the company and represent 20.01% of the issued share capital of subsidiary

♦ Shareholdings owned indirectly by the company and represent 49% of the issued share capital of subsidiary.

◊ Shareholdings owned indirectly by the company and represent 49.9% of the issued share capital of subsidiary.

▲ Shareholdings owned indirectly by the company and represent 50% of the issued share capital of subsidiary.

► Shareholdings owned indirectly by the company and represent 50.1% of the issued share capital of subsidiary.

▼ Shareholdings owned indirectly by the company and represent 51% of the issued share capital of subsidiary.

◄ Shareholdings owned indirectly by the company and represent 48.29% of the issued share capital of subsidiary.

■ Shareholdings owned indirectly by the company and represent 75% of the issued share capital of subsidiary.

□ Shareholdings owned indirectly by the company and represent 97.3% of the issued share capital of subsidiary.

◙ Shareholdings owned indirectly by the company and represent 35.90% of the issued share capital of subsidiary.

Registered office address

1. More London Place, London, SE1 2AF, United Kingdom
2. 1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi, United Arab Emirates
3. 145, Morrison Street, Edinburgh, EH3 8AG
4. 2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01P767
5. 2 Biddulph Cottages Windmill Road,Kemble, Gloucestershire, GL7 6AQ, England
6. 65, Gresham Street, London, EC2V 7NQ, England
7. 33/34 Winckley Square, Preston, Lancashire, PR1 3EL
8. 42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ, United Kingdom
9. 803, Manning House, 38 Queen's Road Central, Hong Kong
10. 850 New Burton Road, Suite 201, Dover, DE, 19904, United States
11. 8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa
12. Atria One 144 Morrison Street, Edinburgh, EH3 8EX
13. Alameda dos Guaramomis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil
14. Bourne House, 475 Goodstone Road, Whyteleafe, Surrey, CR3 0BL, England
15. C/O Pkf Littlejohn 2nd Floor, 1 Westferry Circus, Canary Wharf, London, E14 4HD, England
16. Centrum Biurowe Lubicz I,ul. Lubicz 23, Krakow, 31-503, Poland, Poland
17. Clinch's House, Lord Street, Douglas, IM99 1RZ, Isle Of Man
18. Corporation Service Company 2711, Centerville Road, Suite 400, Wilmington, County of Newcastle, DE, 19808, United States
19. Dorey Court, Admiral Park, St. Peter Port, Guernsey, Guernsey, GY1 4AT
20. Ernst & Young, Block I, Harcourt Centre, Harcourt Street, Dublin2, D02 Y A40, Ireland
21. Hardturmstrasse 101, Zürich, 8005, Switzerland
22. Hepworth House, Claypit Lane, Leeds, LS2 8AE, United Kingdom
23. Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ
24. Kelzstraße 21, Saalfeld, 07318, Germany
25. Kommandantenstraße 22, Berlin, 10969, Germany
26. Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland
27. Landmark Virtual Offices, Africa Re Building - Plot 1679, Karimu Kotun Street,Lagos, Victoria Island, Nigeria
28. Level No. 3, Gate Village 7, Dubai International Finance Centre, Dubai, PO BOX 49983, United Arab Emirates
29. Lindred House, 20 Lindred Road, Brierfield, Nelson, Lancashire, BB9 5SR
30. Montague House, Adelaide Road, Dublin 2, DUBLIN 2, Ireland
31. Nassauer Ring 39-41, Krefeld, 47803, Germany
32. Pavilion Building, Ellismuir Way, Tannochside Park,Uddingston, Glasgow, G71 5PW, United Kingdom
33. Plant 06, Gate No. 2, Godrej and Boyce Complex, LBS Marg, Pirojshahnagar, Vikhroli (West), Mumbai, 400 079, India
34. Room 1603, 16th Floor C C Wu Building, Nos. 302-308 Hennessy Road, Hong Kong
35. Rift House, 200 Eureka Park Upper Pemberton, Kennington, Ashford, TN25 4AZ, England & Wales
36. Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50409 Kuala Lumpur, Malaysia
37. The Beacon, 176 St Vincent Street, Glasgow, G2 5SG, United Kingdom
38. The Courtyard Shoreham Road, Upper Beeding, Steyning, West Sussex, BN44 3TN, England
39. The Riverway Centre, Riverway, Stafford, ST16 3TH, United Kingdom
40. Themistokli Dervi 3, Julia House, Nicosia, 1066, Cyprus
41. Upper Ground Level, Level 1, level 2, & level 3, Tower B1, Margapatta City SEZ, Margapatta City, Hadapsar, Pune,4110113 India Maharashtra, 411013, India
42. Unit B, West Cork Technology Park, Clonakilty, Cork, Ireland
43. Wsm, Connect House 133-137 Alexandra Road Wimbledon London SW19 7JY
44. King Abdul Aziz Street, PO Box 7052, Dammam, Saudi Arabia
45. 24 Blythswood Square, Glasgow, G2 4BG, Scotland
46. 31/F, 148 Electric Road, North Point, Hong Kong

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Listed below are subsidiaries controlled and consolidated by the Group, where the directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2020. This exemption is taken in accordance with Companies Act Section 479A.

Company name	Company registration	Company name	Company registration
Booking Services International Limited	1833039	Clinical Solutions International Limited	4394761
Brightwave Enterprises Limited	7066783	Cymbio Limited	6462086
Brightwave Holdings Limited	7462788	Debt Solutions (Holdings) Limited	3673307
Brightwave Limited	4092349	Euristix Limited	5420948
BSI Group Limited	3005596	FirstAssist Services Limited	1404718
Capita Gas Registration and Ancillary Services Limited	5078781	Health Analytics Ltd	6947862
Capita HCH Limited	2384029	Marrakech (U.K.) Limited	3785263
Capita IT Services (BSF) Limited	1855936	NYS Corporate Ltd	1324425
Capita Mclarens Limited	SC021024	Octal Business Solutions Limited	5182624
Capita Property and Infrastructure (Structures) Limited	2082106	Pervasive Limited	5679204
Capita Property and Infrastructure International Holdings Limited	3860653	Pervasive Networks Limited	3429318
Capita Southampton Limited	10207906	SDP Regeneration Services 2 Limited	4626963
CCSD Services Limited	5399460	The G2G3 Group Ltd	SC199414
CHKS Limited	2442956	Thirty Three LLP	OC372712
Clinical Solutions Finance Limited	5337592	Woolf Limited	1564535

Section 8: Additional information

In this section

8.1 Shareholder information
8.2 Alternative performance measures

8.1 Shareholder information

In this section we have provided you with some key information to manage your shareholding in Capita plc.

Useful websites
Capita (www.capita.com/investors)
Our corporate site is our main external communication channel where we showcase our services, solutions and innovations from across the wider Company. It also contains an investor section, where institutional and private shareholders can access the latest announcements, financial and statutory information and reports.

Shareholder portal (www.capitashares.co.uk)
Capita's register of shareholders is maintained by Link Group. Our shareholder portal is a secure online site where you can manage your shareholding quickly and easily. You can manage many aspects, such as viewing your holding, updating contact details, managing dividend payments, requesting to receive shareholder communications by email and registering. To register you will need your investor code, which can be found on your share certificate or dividend confirmation.

e-communications
Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications, which means that we will notify you by email each time new shareholder communications have been placed on the Capita website.

Registering for e-communications is very straightforward. Go to our shareholder portal www.capitashares.co.uk. Further information about our shareholder portal is below.

Managing your shareholding
We aim to communicate effectively with our shareholders, via our website www.capita.com/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on +44 (0) 798 966 5484 or email: IRTeam@capita.com

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Link Group:

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds LS1 4DL

Email: enquiries@linkgroup.co.uk
Tel: +44 (0) 371 664 0300 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate.)

Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Share dealing
A quick and easy share-dealing service is available for existing Capita UK shareholders to either sell or buy Capita plc shares online or by telephone.

For further information go to: https://ww2.linkgroup.eu/share-deal or telephone +44 (0) 371 664 0445 (UK call charge is: calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate). Lines are open 8.00am – 4.30pm, Monday to Friday excluding public holidays in England and Wales.

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 1052686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Company contact details
Registered office
Capita plc
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London EC2V 7NQ
Tel: 020 7799 1525
Registered in England and Wales with registration number: 02081330

Investor Relations
IRTeam@capita.com
Director of Investor Relations – Stuart Morgan

Company Secretariat
secretariat@capita.com
Group Company Secretary – Francesca Todd

Company advisers

Independent auditor
KPMG LLP

Corporate brokers
Barclays Bank plc

Goldman Sachs International Bank

Bankers
Barclays Bank plc

Citicorp North America, Inc

Deutsche Bank AG Filiale Luxemburg

Goldman Sachs International Bank

ING Bank NV, London Branch

Lloyds Bank plc

National Westminster Bank plc

Sumitomo Mitsui Banking Corporation, London Branch

Corporate communications
Powerscourt

Registrars
Link Group

8.2 Alternative performance measures

The Group presents various alternative performance measures (APMs) as the directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. This includes key performance indicators (KPIs) such as return on capital employed, interest cover and gearing ratios by which we monitor our performance.

	2020	2019	Source
Revenue – continuing operations			
Reported revenue	**£3,324.8m**	£3,678.6m	Line item in income statement
Deduct: business exit	**(£143.6m)**	(£177.6m)	Line item in note 2.2.1
1. Adjusted revenue	**£3,181.2m**	£3,501.0m	
Operating profit – continuing operations			
Reported operating (loss)/profit	**(£32.0m)**	£0.4m	Line item in income statement
Adjusting items in note 2.4	**£143.0m**	£254.1m	
2. Adjusted operating profit[1]	**£111.0m**	£254.5m	
Adjusted operating profit margin	**3.5 %**	7.3 %	Adjusted operating profit/adjusted revenue

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

		2020	2019	Source
ROCE				
Adjusted operating profit[1]	a	**£111.0m**	£254.5m	Adjusted operating profit note 2.4
Adjusted tax rate[2]	b	**14.9 %**	14.7 %	
Tax	c = a x b	**£16.5m**	£37.4m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a – c	**£94.5m**	£217.1m	Adjusted operating profit less tax
Share capital	e	**£34.5m**	£34.5m	Line information in balance sheet
Share premium	f	**£1,143.3m**	£1,143.3m	Line information in balance sheet
Employee benefit trust and treasury shares	g	**(£11.2m)**	(£11.2m)	Line information in balance sheet
Capital redemption reserve	h	**£1.8m**	£1.8m	Line information in balance sheet
Total net liabilities from financing activities	i	**£1,217.5m**	£1,475.3m	Line information in note 2.10.3
Total capital employed	j = e+f+g+h+i	**£2,385.9m**	£2,643.7m	Used as current year capital employed balance in average capital employed 'm'
Prior year capital employed	k	**£2,643.7m**	£2,919.1m	Used as prior period capital employed balance in average employed 'm'
Average capital employed	l = (j+k)/2	**£2,514.8m**	£2,781.4m	
3. ROCE	m = d/l	**3.8 %**	7.8 %	

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2. The effective tax rate for 31 December 2020 has been calculated after excluding the one-off gains described in note 2.6 that resulted in a 20.9% overall effective tax benefit on adjusted profits for the period.

8.2 Alternative performance measures continued

		Post IFRS 16 2020	Post IFRS 16 2019	Pre IFRS 16 2020	Pre IFRS 16 2019	
Headline gearing						
Adjusted profit before tax[1]		**£65.2m**	£197.7m	**£71.6m**	£211.6m	Line information in note 2.4
Add back: adjusted net finance costs		**£46.6m**	£56.2m	**£22.7m**	£30.5m	Line information in note 4.3
Add back: adjusted depreciation and impairment on property, plant and equipment		**£52.7m**	£55.7m	**£52.7m**	£55.7m	
Add back: depreciation on right of use assets		**£88.2m**	£99.2m	**£—m**	£—m	Line information in note 3.5
Add back: adjusted amortisation and impairment on intangibles		**£41.1m**	£30.0m	**£41.1m**	£30.0m	
Remove: Share of results in associates and investment gains		**(£0.8m)**	£0.6m	**(£0.8m)**	£0.6m	Line information in income statement
Adjusted EBITDA	a	**£293.0m**	£439.4m	**£187.3m**	£328.4m	
Impact of ESS business exit on adjusted EBITDA		**£53.0m**	£53.4m	**£52.8m**	£53.2m	
Adjusted EBITDA including ESS exit	b	**£346.0m**	£492.8m	**£240.1m**	£381.6m	
Headline net debt		**£1,077.1m**	£1,353.2m	**£1,077.1m**	£1,353.2m	Line information in note 4.1.1
Remove: IFRS 16 impact		**£—m**	£—m	**£508.1m**	£562.6m	
Net debt	c	**£1,077.1m**	£1,353.2m	**£569.0m**	£790.6m	Net debt excluding the impact of IFRS 16
4. Headline net debt to adjusted EBITDA ratio including ESS business exit	c/b	**3.1 x**	2.7x	**2.4 x**	2.1x	

1. Adjusted operating profit and adjusted profit before tax excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. See note 2.4.

8.2 Alternative performance measures continued

		2020	2019	Source
Covenants[3]				
Adjusted operating profit[1]		**£111.0m**	£317.8m	Line information in note 2.4
Add: business exit – trading		**£51.0m**	(£16.7m)	Line information in note 2.8
Add: share of earnings in associates		**(£0.8m)**	(£0.6m)	
Deduct: non-controlling interest		**(£12.6m)**	(£18.1m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		**£6.4m**	£3.0m	Line information in note 2.10.1
Add back: non-current service pension charge		**£6.9m**	£4.2m	Line information in note 5.2
Add back: amortisation on purchased intangibles		**£42.3m**	£31.1m	Line information in note 3.3
Adjusted EBITA	a1	**£204.2m**	£320.7m	
Less: IFRS 16 impact		**(£17.5m)**	(£11.7m)	
Adjusted EBITA (excluding IFRS 16)	a2	**£186.7m**	£309.0m	
Adjusted EBITA		**£204.2m**	£320.7m	Line item above
Deduct: business exit – trading sold		**£2.5m**	£—m	Trading (profit)/loss for businesses sold
Add back: adjusted depreciation and impairment on property, plant & equipment and right of use assets		**£140.9m**	£174.2m	See notes 2.10.1, 3.2, 3.5
Covenant calculation – adjusted EBITDA	b1	**£347.6m**	£494.9m	
Less: IFRS 16 impact		**(£105.7m)**	(£110.9m)	
Covenant calculation – adjusted EBITDA (excluding IFRS 16)	b2	**£241.9m**	£384.0m	
Adjusted interest charge		**(£46.6m)**	(£56.2m)	Line information in note 4.3
Interest cost attributable to pensions		**£3.2m**	£4.4m	Line information in note 4.3
Cash flow hedges recycled to the income statement		**(£4.5m)**	(£2.6m)	Line information in note 4.3
Borrowing costs	c1	**(£47.9m)**	(£54.4m)	
Less: IFRS 16 impact		**£23.9m**	£25.7m	
Borrowing costs (excluding IFRS 16)	c2	**(£24.0m)**	(£28.7m)	
5.1 Interest cover (US PP covenant)	a1/c2	**8.5 x**	11.2x	Adjusted EBITA/Borrowing costs with adjusted EBITDA including the impact of IFRS 16 and the borrowing costs excluding the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a2/c2	**7.8 x**	10.8 x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		**£1,077.1m**	£1,353.2m	Line information in note 2.10.3
Lease liabilities included within disposal group liabilities held for sale		**(£4.6m)**	£—m	Line information in note 4.4.1
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale		**£12.9m**	£—m	Line information in note 4.5.4
Restricted cash[2]		**£34.5m**	£42.1m	Cash that may not be applied against net debt for covenant calculation purposes
Less: IFRS 16 impact		**(£503.5m)**	(£562.6m)	
Adjusted net debt (excluding IFRS 16)	d1	**£616.4m**	£832.7m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b1	**1.8 x**	1.7x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b2	**2.5 x**	2.2 x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2. Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts and cash represented by non-controlling interests and joint ventures.
3. To enable the user of the financial statements to understand the covenant information submitted to the Group's external lenders, the 31 December 2019 comparatives have not been restated.